FINANCIAL TIMES

World Business Newspaper

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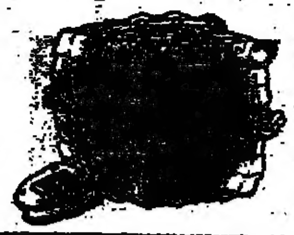

TOMORROW'S **Weekend F**
Prison – right or wro

Today's surveys — *North American Aerospace* — Pages 11-13

Yeltsin in election promise to defend Russian democracy

Russian president Boris Yeltsin will today launch an election manifesto promising to defend the country's democratic freedoms and develop its market economy, in an attempt to gain the political centre ground before next month's poll. Mr Yeltsin will *pledge to complete* his economic reforms, rewrite the tax code, compensate swindled investors, strengthen the social welfare system and introduce a modern professional army. Page 18

Barings lifts ING results: ING, the Dutch financial services group reported an unexpectedly strong first quarter, *helped by* UK merchant bank Barings, which it took over last year. The inclusion of Barings and a strong recovery in securities trading helped ING's net profit rise to Fl 736m ($427m), up 42 per cent from a year earlier. Page 19

Daewoo Motor, the South Korean industrial group's subsidiary, *plans to start exporting* heavy trucks to Europe by the end of the year, increasing competition in the region's crowded truck market. Sales of trucks in Europe are expected to decline from last year's 255,000 vehicles. Page 18

Varity Corporation, the US automotive components group in merger talks with the UK's Lucas Industries, has postponed its first-quarter results for the second time, raising expectations that a deal is imminent. Page 21

US revises growth estimates: The US Commerce Department revised growth estimates to show the *economy expanding* at an annualised rate of 2.3 per cent in the first quarter, down from 2.8 per cent as previously reported. Page 5

OECD praises UK reforms: The Organisation for Economic Co-operation and Development praised the UK's labour market reforms, saying they have created one of the most competitive and flexible economies in Europe. Page 9

Lawsuit hits Germany's MG group: Shares in Metallgesellschaft, the German industrial and trading group, fell after news that it was *being sued for* DM100m ($64.7m) by a former subsidiary BUS Berzelius Umwelt-Service, an environmental services company. Page 20

Mediaset approves flotation price: The board of Italian media company Mediaset, owned by Silvio Berlusconi, *approved a wide price range for* its planned flotation, which is likely to value the company at about L7,000bn ($4.5bn). Page 20

Nickelodeon, the children's television subsidiary of US entertainment group Viacom, is suing the television authorities in the German state of Bremen, *claiming they* are illegally *blocking* access to the public broadcasting network. Page 2

Hungary to approve bank sale: Hungary's privatisation agency said it expected to go through with the controversial sale of its 50 per cent stake in the country's oldest bank, Altalanos Ertekforgalmi Bank, to the banking arm of *Gazprom*, Russia's largest company. Page 3

Slovakia signs N-plant deal: Slovakia signed agreements worth nearly $900m with several banks to finance completion of its controversial Mochovce nuclear power plant, and said it plans to shut an older plant within six years. Page 6

British groups allege Saudi exclusion:

Leading British civil engineering contractors claim the Saudi state oil corporation Saudi Aramco has excluded them from bidding for large oil and gas projects in retaliation for the UK's failure to deport Saudi dissident Mohammed al Massaari (left). The allegations follow a *British government* decision to rescind a deportation order against Mr Massaari. Page 6

McDonnell Douglas of the US has agreed to accept $93m worth of Thai goods in part exchange for a $578m contract to supply eight top-of-the-range *F/A-18 strike fighters.* Page 18

New Indian PM faces cabinet pressure: India's United Front leader H.D. Deve Gowda, who takes over as prime minister tomorrow, is *facing* demands for cabinet positions from the group's 13 parties and their leaders. Page 7

Basque guerrilla suspect held: French police arrested a woman, believed to be one of Spain's most wanted Basque separatist guerrillas, as she attempted to use *a fake Spanish* passport at *Charles* De Gaulle airport near Paris.

Israeli prime minister heading for defeat as final votes are counted

Rightwing opposition poised to oust Peres

By Julian Ozanne and David Gardner in Jerusalem and Jurek Martin in Washington

Race for premiership ......Page 4
Peace in the balance ......Page 17
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Mr Benjamin Netanyahu, Israel's rightwing opposition leader, was poised to topple Mr Shimon Peres, the *prime minister, yesterday* in an upset election victory which cast doubt over the future of Middle East peace.

With about 95 per cent of the *votes counted, Mr Netanyahu* had won 50.3 per cent of the vote compared to Mr Peres' 49.6 per cent in the race for the premiership, which became a referendum *on the peace process.*

Up to 150,000 votes by Israelis who had been away from home, most of them young soldiers, had yet to be counted last night.

Both parties said that with Mr Netanyahu leading Mr Peres by just 21,000 votes, the race was still *too close for a definitive call* on the outcome.

Analysts said soldiers, mostly conscripts between the age of 18-22, traditionally voted rightwing, *but* some *held* out a very slim prospect that Mr Peres could yet claw back the lead.

Other commentators said the overwhelming Jewish composition of the soldier vote would tip the balance more towards Mr Netanyahu after results showed *that, among Israeli Jewish* voters, Mr Netanyahu had won 55.5 per cent compared with 44.5 per cent for Mr Peres.

The prospect of a rightwing government sent a shock through Israel's financial community, which was concerned about the *collapse of the peace process* and a slowdown in new trade and investment flows.

On the Tel Aviv Stock Exchange, the benchmark Mishtanim *index of the top 100 stock* fell almost 4.8 per cent. The shekel opened down at 3.29 to the dollar and fell to a year low of 3.31 before recovering to 3.30.

US president Bill Clinton, who had openly backed Mr Peres, declared his support for Israel and said the Middle East peace process would remain unchanged regardless *of who headed* the next Israeli government.

Mr Clinton said it was necessary to "wait and see" for the final results but, in carefully *worded comments, he* warned against the automatic assumption that a victory for Mr Netanyahu was a severe setback for the prospects of peace.

Both *Mr Netanyahu* and *Mr* Peres remained silent throughout the day before a final tally of votes expected today.

But Mr Danny Naveh, an aide to Mr Netanyahu, sought to reassure nervous foreign investors, Arab states and western governments.

He said the rightwing leader *wanted to continue* peace *if* a way could be found to meet Israel's demand for better security. "Benjamin Netanyahu has a deep commitment to continuing a *process of* peace, peace with security, between Israel and all its neighbours, including the Palestinians," Mr Naveh said.

Palestinian president Yasser Arafat was said by aides to be depressed by the results, but refused to make public comment.

Mrs Hanan Ashrawi, a *member* of the Palestinian parliament, said she was confident the peace process had established "realities on the ground" that could not be reversed.

However, other Palestinian officials said *privately* that Mr Netanyahu's pledge to restart building Jewish settlements on Palestinian lands, to send more Israeli troops into the West Bank and to refuse to negotiate over Palestinian statehood or the future of Israeli-occupied Arab *East Jerusalem would lead to* an explosion of violence and an upsurge in Islamic extremism.

Mr Arafat, Jordan's King Hussein and Egyptian president *Hosni Mubarak were due to hold* a summit in Jordan next week to discuss the impact on the peace process of the election results.

Victory in sight: Likud leader Benjamin Netanyahu at his campaign headquarters yesterday — Picture: Reuter

ISS puts $100m aside for errors at US arm

By Hilary Barnes in Copenhagen

ISS-International Service Systems, the Danish contract cleaning group, has made $100m in provisions for financial irregularities at its US subsidiary, forcing it to withdraw a forecast of 15-20 per cent *earnings* growth this year.

The shares, which were listed on the New York Stock Exchange last year, lost a third of their value on the news, recovering to close at DKr131, down DKr32.

ISS, which has grown from a small local cleaning company to become the world's largest contract cleaner with 130,000 employees, said profits of the US subsidiary had been overstated over a *number of years.*

There were indications that a number of senior executives were involved, and the group was taking legal advice. Its US auditor, *Arthur Andersen, has* resigned.

This latest reversal comes after problems in the US led the once fast-growing group to issue a profit warning last year. In March it reported a 44 per cent slide in its 1995 net income to DKr162m ($27.2m).

"After the disappointments we have come out with, it will take a long time to re-establish confidence and credibility in the group," Mr Waldemar Schmidt, who took over as group chief executive last October, admitted yesterday.

The $100m in provisions are equivalent to 45 per cent of the group's equity capital of $222m at the end of last year.

ISS said profits of the US subsidiary were inflated by at least $30m over several years and inadequate provisions were made for its US self-insurance programme against accident claims by employees.

Mr Schmidt said no fraud or embezzlement was suspected.

Until the recent setbacks, ISS had been widely *admired* internationally as a pioneer in the industrialisation of the cleaning business and for its ability to raise industry standards and to improve the job status of the

Continued on Page 18
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Brussels warns Visa over curbs on rival cards

Competition commissioner says extension of US restrictions to Europe would be unacceptable

By Neil Buckley in Brussels and Motoko Rich in London

Mr Karel Van Miert, European competition commissioner, yesterday *fired a warning shot* at Visa International, the credit card organisation, saying he would "not accept" any move by Visa to restrict its member banks in Europe from issuing rival credit cards.

His comments followed complaints to the commission from American Express, Diners Club and *Dean Witter Discover* that Visa – an association owned and operated by 19,000 member banks – *was planning to extend to* Europe an internal "bylaw" which prohibits its US members from issuing other cards.

Mr Van Miert's warning could *clear the way for operators such* as American Express to carry out *plans to start issuing* cards through European banks, providing them with a new distribution route in an more competitive market. It may prompt calls for *US anti-trust authorities to allow* similar competition in the US.

The timing of his comment was "no coincidence", he added, and designed to send a "message" to Visa, whose board meets in Montreal in a few days to discuss competition issues.

"We really think there is a problem with [Visa's] attitude and we can't accept it," he said.

Although Mr Van Miert's remarks did not constitute a for*mal decision, officials suggested* they showed clearly which way the commission would rule on the complaints it has been investigating for several months.

Visa's head office in San Francisco said it "welcomed" the commission's investigation, and was co-operating fully.

"We appreciate the position expressed by the Commission today, and will give it due consideration at our upcoming board meeting," the group added.

But it said there was no bylaw *on binding arrangements* in Europe before the board meeting, and it had consistently stated it would "never contravene European laws in this field".

American Express, whose chairman Mr Harvey Golub is keen to start issuing charge and credit cards through banks, said it was "thrilled".

Amex said banks had been put off from negotiating with it about issuing cards by the possibility of action from Visa. "The cloud of confusion in the market place has been *lifted* and *we can now* go forward," it said, adding that it believed the EU decision would lead to "additional pressure" to change Visa's bylaw in the US.

Mr Golub earlier this month said Amex's research had found that executives at more than 100 of the 300 largest US banks would be interested in issuing a wider range of payment cards.

Mr Van Miert's comments came during a *presentation on* European competition policy, when he defended the commission's role in vetting competition cases, and rejected calls for creation *of an independent Euro*pean anti-trust body.

Present role defended, Page 2

Sinn Féin may offer Ulster deal if talks agenda agreed

By John Kampfner and John Murray Brown in Belfast

Sinn Féin, the political wing of the Irish Republican Army, could agree to a settlement of the forthcoming all-party talks on the constitutional future of Northern *Ireland that falls short of restor*ing a united Ireland, Mr Gerry Adams, the party leader, suggested yesterday.

"We're now seeking to bring an *end to the conflict – not an end* to the republican struggle, which can go on a new plane," *Mr* Adams said in an interview with the Financial Times yesterday.

The interview took place on the day Northern Ireland's 1.1m electorate voted on a forum paving the way for all-party negotiations. Mr Adams said Sinn Féin would be prepared to work with the main parties if the British and Irish governments agreed an agenda next week.

However, Mr Adams refused to be drawn on whether the IRA would restore its ceasefire. London, *Dublin and Washington* have said Sinn Féin would not be allowed to join nine other parties when the talks begin *on* June 10 unless the IRA reinstates its declaration of August 1994 that led *to 17 months of peace.*

He called on the governments to set out a broad timeframe for the negotiations to ensure that the main constitutional questions *were addressed.*

Adopting a conciliatory tone, Mr Adams acknowledged that the issue of paramilitary weapons was "a vexed matter that needs *to be resolved". He did not rule* out Sinn Féin agreeing to the IRA starting the handover of weapons before the conclusion of the talks.

Mr Adams suggested that if republican concerns were addressed during the talks, such as radical reform of the security forces and removal of "oppressive legislation", Sinn Fein could accept an outcome which might *leave the six counties that com*prise Northern Ireland within the United Kingdom.

"We intend to put the issue of sovereignty on the agenda. We *will pursue that objective* in peaceful circumstances and on a level playing field," he said. "If there is equality of treatment, if there are broad democratic rights, if there is an understand*ing between the two govern*ments which can meet the consent of all the parties, then we have eased ourselves out of the potential of another 25 years of *conflict.*"

Mr Adams added: "It might not be as much as we want this time, maybe it will be, but let's make it work. Sinn Féin will be bound by *any agreement to which we are a* party."

His remarks appeared designed to redouble pressure on London and Dublin to allow Sinn Féin to *join the talks irrespective of a* ceasefire announcement.

The count from yesterday's elections to a 110-seat forum, which will delegate teams for the talks, will begin this morning.

Attention will focus on whether Sinn Féin can add to its traditional 10 per cent support, and on whether the Democratic Unionists push the Ulster Unionists into second place.

Adams edges towards compromise, Page 9

■ STOCK MARKET INDICES		
New York lunchtime		
Dow Jones Ind Av	5,670.14	(-3.69)
NASDAQ Composite	1,228.72	(+3.09)
Europe and Far East		
CAC40	2,198.44	(-8.66)
DAX	2,527.31	(-24.14)
FT-SE 100	3,748.7	(-29.0)
Nikkei	21,806.35	(-135.15)

■ US LUNCHTIME RATES	
Federal Funds	5½%
3-mth Treas Bills: Yld	5.188%
Long Bond	88⅛
Yield	6.944%

■ OTHER RATES		
UK: 3-mo Interbank	6⅛%	(same)
UK: 10 yr Gilt	95½	(95⅛)
France: 10 yr OAT	105.39	(105.8)
Germany: 10 yr Bund	98.22	(98.75)
Japan: 10 yr JGB	98.5877	(98.5734)

■ NORTH SEA OIL (Argus)		
Brent Dated	$18.89½	(18.95)

■ GOLD		
New York: Comex		
June	$387.0	(391.2)
London:		
close	$391.35	(391.3)

■ DOLLAR		
New York: lunchtime		
£	1.537	
DM	1.53075	
FFr	5.1805	
SFr	1.2565	
Y	107.475	
London:		
£	1.5346	(1.5193)
DM	1.5323	(1.5453)
FFr	5.1887	(5.2292)
SFr	1.2588	(1.2723)
Y	107.65	(108.745)

■ STERLING		
DM	2.3515	(2.3477)
Tokyo $ close:	Y 108.25	

Albania	LEK 220	Germany	DM4.00	Lithuania	Litas6.00	Qatar	QR13.00		
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR12		
Bahrain	Din1.250	Hong Kong	HK$20	Malta	Lm0.85	Singapore	S$4.30		
Belgium	BFr75	Hungary	Ft230	Morocco	MDh16	Slovak Rp	Sk65		
Cyprus	C£1.20	Iceland	IKr230	Neth	Fl 4.75	S. Africa	R12.00		
Czech Rp	Kc60	India	Rs75	Nigeria	Naira90	Spain	Pta250		
Denmark	DKr18	Israel	Shk7.90	Norway	NKr20.00	Sweden	SKr20		
Egypt	E£5.00	Italy	L3300	Oman	OR1.50	Switz	SFr3.70		
Estonia	EKr 22	Japan	Y500	Pakistan	Rs40	Syria	S£85.00		
Finland	FM15.50	Jordan	JD1.50	Poland	Zl5.50	Tunisia	Din1.750		
France	FFr11.50	Kuwait	Fils.650	Portugal (m'land)	Es240	Turkey	L80,000		
		Lebanon	LL3,000			UAE	Dh12.00		

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NEWS: EUROPE

Van Miert defends competition role

Commissioner rejects calls by some member states for independent agency to vet cases

By Neil Buckley in Brussels

Mr Karel Van Miert, the European competition commissioner, yesterday launched a passionate defence of the Commission's right to vet EU competition cases, rebuffing calls from member states such as Germany and Italy for the job to be handed to an independent agency.

He also hit out at an increasing tendency by companies to attempt to mislead the Commission about state aid payments, citing cases in Germany and Denmark where aid payments approved for one purpose were diverted to other projects.

He was presenting a report on competition policy which showed that the number of cases presented to his department jumped by a third in 1995.

Mr Van Miert said an independent competition agency would be costly, controversial, and more open to political influence from member states than the Commission.

"Competition policy has been successful in opening up markets, and promoting the single market," he said. "If so, why take competition policy away from the Commission? That would be the worst of all possible things."

Germany has criticised the Commission for being vulnerable to political pressure, and too weak in dealing with merger and state aid cases. Its call for an independent European competition agency was echoed this month by Mr Giuliano Amato, Italy's former prime minister and now head of its anti-trust authority.

Mr Amato said such an independent body would allow the separation of roles between law enforcement, and setting broader policy guidelines – which could still be carried out by the Commission.

France, in contrast, has criticised Brussels for being too tough, saying vetoes of mergers were preventing the formation of European companies large enough to challenge US giants.

Mr Van Miert said the conflicting views showed it would be impossible to set up a competition agency matching all member states' demands. He suggested the Commission was getting the balance right.

"There seems to be a basic contradiction between those who say we are too tough, and those who say we aren't tough enough," he said.

Mr Van Miert also denied suggestions that other commissioners were urging a rethink of competition policy. These were sparked in part by a speech by Mr Jacques Santer, Commission president, to Belgian businessmen this month, when he hinted at support for the view that over-zealous competition policy was hindering the competitiveness of European companies.

The competition chief countered yesterday: "We have never had such a large measure of consensus in the Commission on competition as in this last year and a half."

Mr Santer, however, is thought to be considering a competition policy review as part of a package of job-creating measures to be presented to EU heads of government in Florence in two weeks' time.

The 1995 report showed competition cases presented to the Commission increased from 1,061 to 1,472, resulting partly from entry of Austria, Finland and Sweden into the Union. State aid cases, which were starting to emerge in new sectors such as banking and media, increased 35 per cent.

Mr Van Miert said privatisation programmes, particularly in the former east Germany, were also increasing the number of state aid cases to examine. He warned that another EU policy – liberalisation of markets such as telecoms and energy – would create more, not fewer, competition cases as former national monopolies were swept away.

Bremen sued in children's TV row

By Judy Dempsey in Berlin

Nickelodeon, the children's television subsidiary of the US entertainment group Viacom, is suing the television authorities in the German state of Bremen, claiming they are illegally blocking access to the public broadcasting network.

The suit in the Bremen administrative court will be a test case of how far Germany's public broadcasting authorities are willing to open up broadcasting to special interest channels.

It could also determine whether the public service broadcasting authorities based in each federal state have the right to reserve blocks of broadcasting time on the three publicly-financed channels – ARD, ZDF and Arte, the cultural network – or to set up special interest channels of their own.

Nickelodeon, currently Germany's only children's channel, decided to sue Bremen's Medienanstalt, the television authority, after it was refused permission to broadcast in the state via cable. ARD and ZDF are drawing up proposals to launch a children's channel on Arte next year, to be funded by the taxpayer to the tune of DM100m ($65m) a year.

Mr Gert Ukena, a legal expert at Medienanstalt, said there had been 13 other applications for licences. A final decision was due next month.

Bremen, like other states, wields considerable powers over broadcasting. Each has a Medienanstalt, comprising representatives of local government, unions, churches, schools and pressure groups, which issues broadcasting licences and has a remit to ensure there is a wide variety of high quality programmes.

Nickelodeon has licences to broadcast via satellite and cable in all but three of the 16 states.

Because there is limited capacity on the public cable television system, the other federal states have given it access to the Arte channel until the end of this year. Arte has available broadcasting space from 6am until 5pm, when it starts its own cultural/specialist programme. This solution was turned down by Bremen, Berlin and Schleswig-Holstein.

Mr Bruce Tuchman, vice-president of Nickelodeon International, believes that if ARD and ZDF launched the children's channel via Arte, Nickelodeon, would be squeezed out.

The dispute coincides with a debate in Germany about whether the federal states should have such wide-ranging powers over broadcasting, especially in relation to the new multimedia technologies.

New friends recoil as Albania's mask slips

The gangs of chanting youths charging up and down Tirana's Boulevard of the Martyrs in celebration of the Democratic party's victory wave the European Union's blue and gold flag wildly through the air. It is an action symbolic of Albania's desperate yearning to join the European mainstream.

But reports of ballot-rigging and violence against opposition parties during and after last Sunday's general election are setting off alarm bells in western Europe and the US. They are raising questions about whether Europe's poorest country is still on the road towards integration into Europe, developing a pluralist democracy and an open market economy.

Opposition leaders allege emotionally that Albania is slipping towards dictatorship. At least six opposition parties – including virtually all the main participants – pulled out of the election hours before polling ended, alleging massive electoral fraud and vowing to boycott the next parliament.

The result was a rout, with President Sali Berisha's ruling rightwing Democratic party taking 95 of 115 directly elected seats and 67.8 per cent of the popular vote and the Socialist party – the reformed Communists – cut from 38 in the last parliament to five. Sunday sees a further round of voting for the few remaining seats, but the observers from the Organisation for Security and Cooperation in Europe have packed their bags and left.

Mr Flavio Cotti, OSCE chairman, yesterday called on the government to consider a partial repetition of the polls for the sake of political stability.

The opposition's first attempt to bring its protest to the streets was crushed on Tuesday by riot police and paramilitary units. Party leaders were arrested and some beaten in police cells.

Albania has made remarkable progress in the six years since the statue of the Stalinist dictator Enver Hoxha was toppled in Skanderbeg Square, ending 50 years of virtual isolation under the harsh communist regime.

After two years of crisis, when thousands of desperate Albanians fled on rusting ships across the Adriatic, the country has made impressive progress, embracing transition reform programmes put forward by the International Monetary Fund, the World Bank and other western institutions.

Albania has received more aid per capita than any other transition economy and was becoming a model for such programmes. With a population of only 3.2m, the country seemed able to manage its problems.

Privatisation has spawned a growing private sector. Inflation of several hundred per cent was brought down to below 6 per cent year-on-year in December. The currency was stable for more than two years before being hit by pre-election jitters; and the budget deficit has hit all IMF targets.

The country's first stock market opened this month and, on the eve of the election, the first GSM mobile telephone network was hurriedly inaugurated – ultimate symbol of an upwardly mobile Albania.

Growth in gross domestic product has averaged around

The feeling is growing, writes Kevin Done, that President Sali Berisha (below) must be reined in

10 per cent a year and streets are clogged with the private cars banned under Hoxha.

There is a dark side, however. Corruption is rife, and growth has been fuelled by illegal activities, from drugs and weapons smuggling to trafficking in illegal immigrants across the Adriatic to Italy, and from shipping oil into Serbia and Montenegro during the long United Nations trade embargo.

But four years is a short time to create a country. "We didn't start from zero, we started from less than zero," says a central bank official.

Infrastructure is hopelessly antiquated, with shortages of water and power. Private consumption and rising living standards are supported only by remittances – estimated at $250m-$300m a year – from Albanians working abroad, and by foreign aid.

Diplomatically, the west seemed to have found, perhaps to its surprise, a useful new ally in the unpredictable Balkans. Albania has provided a base for US reconnaissance activities over former Yugoslavia during the Bosnia conflict and has played a stabilising role in the issue of Kosovo, the southern region of Serbia, often regarded as the most explosive problem in the Balkans after Bosnia.

Around 2m Albanians, 90 per cent of Kosovo's population, live under harsh repression in a virtual police state ruled from Belgrade. The Tirana government has exercised great restraint in advocating peaceful means, while pushing the west to focus on the Kosovo problem.

"The last thing the international community needs is Albania falling apart, just as it dips its toe into the Kosovo problem," says one western diplomat in Tirana.

However alarmed the west may be at the conduct of last week's election, the paramount desire to maintain stability will temper its reaction, probably to the frustration of the country's opposition parties which are looking to the west for a lead in ensuring a pluralist democracy.

"Albania cannot be looked at in isolation. There are the wider problems of the Balkans," cautions another diplomat.

Europe's response will be complicated by the economic and political interests of neighbouring Italy and Greece, and increasingly of Germany. Italy has been keen during its EU presidency to bring Albania quickly down the path towards closer trade and co-operation arrangements with the Union.

Yet there is a growing conviction that President Berisha must somehow be reined in. He has established an authoritarian leadership of the Democratic party, the media are under heavy pressure, there is widespread concern for the independence of the judiciary, and senior opposition figures have been jailed.

The west has to decide how to deal with the frustrations of a disenfranchised opposition and the ambitions of a government which will face no opposition worthy of the name in parliament. It also needs to consider how it can continue aid to a regime whose behaviour and methods it finds increasingly distasteful.

For four years Albania has seemed to be part of the solution in the effort to bring peace to the Balkans. Now it is in serious danger of becoming part of the problem.

President Boris Yeltsin, campaigning yesterday in the Urals, greets supporters on a collective farm Reuter

Yeltsin's camp tars Zyuganov with Nazi brush

By John Thornhill in Moscow and Chrystia Freeland in Grozny

Supporters of President Boris Yeltsin's re-election campaign are stepping up their savage personal attacks on Mr Gennady Zyuganov, comparing the Communist party candidate with Hitler in a widely-distributed propaganda sheet.

Millions of copies of a fiercely anti-Communist newspaper, Ne Dai Bog! (God forbid!), were yesterday delivered throughout Russia, comparing Mr Zyuganov's speeches to Adolf Hitler's rhetoric in his book *Mein Kampf*.

Under the headline "Zyug Heil", the newspaper article accused Mr Zyuganov of emulating Hitler in stirring up hatred and extremism in the country to grab power. Other articles in the well-designed colour newspaper denounced the Communist party's programme and past.

Ne Dai Bog! has been pushed into post-boxes in many cities around Russia and was carried as a special supplement in the Kommersant business newspaper yesterday. Mr Vladimir Yakovlev, a member of the editorial board of Ne Dai Bog!, owns the media company which publishes Kommersant.

The Communist party has protested, arguing that Ne Dai Bog! breaches Russia's electoral laws. They claim it is published outside Russia and financed with funds not declared to the central electoral commission.

Some local post offices have refused to deliver the newspaper, claiming it is unofficial electoral propaganda.

The first issue earlier this month depicted Mr Zyuganov as a surgeon clutching scalpels, in the form of a miniature hammer and sickle, and asking "What's your complaint?"

The publication does not appear to have impressed many voters in the regions, however, and some have even confused it with official Communist party propaganda.

Pro-Yeltsin supporters have even gone to the trouble of distributing Ne Dai Bog! in the separatist southern region of Chechnya, where the president is blamed for starting a conflict which has killed more than 30,000 people.

"It is Yeltsin who has destroyed us and we will never vote for him," Mrs Zara Banaieva said yesterday in the Chechen village of Gekhi.

Turkey's local polls may shift nation

Only 650,000 are voting, but the result could put the Islamist party in government, writes John Barham

The local elections in Turkey on Sunday involve only about 650,000 voters – but that small cross-section of the electorate will be voting as the fate of the country's political leaders hangs in the balance. The outcome could even tip the balance of power in favour of Refah, the Islamist opposition party, enabling it to form a new national government.

On Monday, parliament begins a no-confidence debate in which Refah will try to topple the government of Mr Mesut Yilmaz, the prime minister. Sunday's elections could help determine who leads the country next.

Mr Yilmaz and Mrs Tansu Çiller, his bitter rival for control of the divided pro-western, pro-business, secular centre right, could claim the upper hand if one of their parties does better than the other on Sunday.

The Motherland party of Mr Yilmaz leads Mrs Çiller's True Path party in the polls. Refah, which pollsters expect to come first, will probably renew its demand to head the next government, or for fresh elections to be held.

Refah owes its success to a reputation for honesty, an unashamedly populist message and its efficient management of Istanbul and Ankara, Turkey's largest city and capital respectively.

Istanbul, with a population of more than 8m, has been a showcase for Refah since it took over in 1994. Mr Recep Tayyip Erdoğan, Istanbul's clean-cut mayor, has become a walking advertisement for the party. Instead of imposing Islamic codes on Turkey's biggest and most cosmopolitan city, Mr Erdoğan, 42, has concentrated on problem solving.

Mr Mustafa Açikalin, his right-hand man, says Istanbul's biggest problems when Refah took over were corruption, waste, pollution, and water shortages. "The moral pollution is finished. We have already partially solved the water and air problems. Traffic is next," says Mr Açikalin.

Mr Erdoğan banned the use of lignite coal to heat homes and increased natural gas connections, reducing air pollution dramatically.

Water cuts were once so frequent that Istanbul's inhabitants had to lug home jerrycans of water on their way home from work every day.

Mr Erdoğan reorganised the city water company, once a byword for corruption – its former president Ergun Göknel of the Social Democrat party is in jail for taking bribes.

Providentially wet weather has helped reduce shortages. Mr Açikalin says: "This year the rain was enough because of our prayers. We said first we would work and after that we would pray. Allah helps those who help themselves." The city is spending $1bn to finish building the Istanbul underground railway, which has dragged on from one administration to another. Once the 30km system is working it could help unclog the city's traffic jams.

Even foreign executives, bankers and officials at multilateral agencies working on Istanbul's infrastructure projects recognise that the Islamists are generally more efficient, and certainly more honest, than their predecessors.

Not everything is perfect. Mr Anders Ericsson, country manager for ABB the Swiss-Swedish power engineering group, says: "When the government of the municipality changes, they do not just change the politicians but the civil servants and technocrats, right down to the tram drivers."

Many of the city's westernised middle class are convinced that Refah's show of moderation and efficiency is an illusion and that once in power at national level they would dismantle the secular system that they tolerate in Istanbul.

Some Refah supporters do not hide these aims. Mr Erol Yarar, a prominent businessman, says: "We have to live according to our religion." He wants gambling and drinking alcohol forbidden and women encouraged to wear the veil.

Western intelligence sources are worried about Refah's ties with Iran. Mr Necmettin Erbakan, party leader, praises that country's revolution and is a frequent visitor at the Iranian embassy. In Istanbul, Iranian cultural centres, language schools and Koran courses are proliferating. Diplomats say Mr Erdoğan receives campaign contributions from Tehran.

A Turkish pollster echoes these concerns: "Erdoğan is a rising star in Refah. He is the most probable successor to Erbakan. He tries to look as moderate as he can, but becomes much more radical than Erbakan when challenged."

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EUROPEAN NEWS DIGEST

Spain moves on Rock dispute

Spain yesterday tried to defuse tension over Gibraltar after a complaint from the British embassy about border delays caused by reinforced Spanish controls.

Mr Abel Matutes, the foreign minister, said Madrid would be ready to ease border restrictions if the British colony's new administration fulfilled its promise to crack down on smuggling.

However, he said the question of co-operation with Gibraltar could not be separated from the issue of sovereignty. He described the territory's colonial status as "anachronistic and without sense" and said a visit to Gibraltar by Prince Philip, husband of Britain's Queen Elizabeth, was "inopportune".

Hopes for diplomatic progress were raised by the election victory two weeks ago of the conservative Gibraltar Social Democrats led by Mr Peter Caruana, a more conciliatory figure than his Socialist predecessor Mr Joe Bossano. The British embassy in Madrid complained after hold-ups were reported of up to six hours at the Spain-Gibraltar border last weekend. *David White, Madrid*

Germany's pet tax break ended

The German state does not have to pay for the upkeep of pets while their owners are away for treatment at health spas, a Berlin court said yesterday, one of a number of rulings designed to roll back the lavish social security system in Germany at a time when almost unprecedented savings are being made.

Germans are allowed to claim a number of expenses during stays at health spas but they must be "subsistence expenses" such as food and accommodation, the court said. Another administrative court based in Berlin also ruled people receiving unemployment benefit did not have the right to have their apartments paid for if these were unnecessarily large and expensive. This especially applies to people on benefit who move into larger flats without good reason, the court says.

Germany is trying to remove abuses of what is regarded as one of the world's most generous welfare systems, at a time when unemployment has reached record levels and the government has announced it wants to make savings of DM70bn ($46bn) next year. *Michael Lindemann, Bonn*

Walesa wins pension of $12,960

Mr Lech Walesa, Poland's former president who is presently on a lecture tour of the United States, will receive a pension equal to half of the 67,392 zloty ($25,920) annual salary of the present incumbent, Mr Alexander Kwasniewski, parliament decided yesterday.

The decision follows a campaign for a pension by the former Solidarity leader, who argued that he had no visible means of support after losing the presidential election last year. To strengthen his case he went through the motions of seeking to return to his humble electrician's job at the Gdansk shipyard.

However, the settlement is less generous that the 100 per cent presidential salary envisaged by the Sejm, parliament's lower chamber, which yesterday accepted the pension be halved at the initiative of the senate. The senate argued that a grant of full pay for ex-presidents would be excessive, as they were also entitled to security and office expenses. The grant covers all former presidents and thus includes General Wojciech Jaruzelski, the former communist leader who imposed martial law. *Christopher Bobinski, Warsaw*

Romania suspends second fund

Romania's securities commission has suspended a second large mutual fund because of liquidity problems and management changes, just two weeks after taking similar action against FMOA, the country's leading fund.

However, commission officials said yesterday that, unlike at FMOA, they did not suspect irregularities at Credit Fond. Its activities have been frozen for 60 days while it seeks a new administrator.

On Wednesday, Credit Fond's manager, Certinvest, said it was giving up management of the fund, citing public loss of confidence in the investment fund sector following FMOA's suspension.

Certinvest also said it was cancelling the fund's settlement arrangement with Credit Bank which had been delaying redemption payments to depositors, causing further panic among investors. *Virginia Marsh, Budapest*

'Free zone' of Corsica vetoed

The French government has been forced to back down from its plans to turn the entire island of Corsica into an enterprise zone, exempt from a wide range of taxes.

Mr Jean-Claude Gaudin, minister for regional development, said during a visit to the troubled island yesterday afternoon that creating a "free zone" would be incompatible with the requirements of European Union regulations and the treatment of other parts of the country. The idea was put forward as part of a plan to curb Corsican separatist terrorism.

His comments came after Mr Karel Van Miert, the EU competition commissioner, expressed doubts on granting tax privileges to Corsica. But Brussels has already approved plans for enterprise zones on a smaller scale for troubled urban areas in some French cities. *Andrew Jack, Paris*

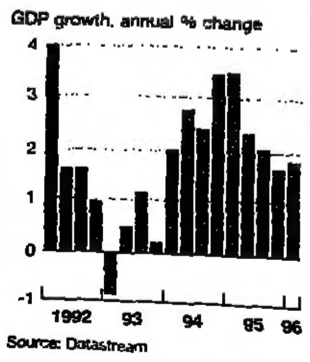
Charges in Greek telecoms case

A Greek state prosecutor yesterday laid criminal charges for wrongdoing by unknown persons in a $200m deal to supply the state telecoms monopoly, OTE, with digital switches.

Mr Lambros Karambelas, the prosecutor, brought four felony and three misdemeanour charges in connection with the 1994 deal in which OTE purchased 1m digital switches from the private Greek company, Intracom, and Siemens Hellas, a subsidiary of Germany's Siemens. Court officials said that, having laid formal charges, the prosecutor would begin summoning witnesses in about two weeks. He will eventually name individuals, but this could take two months. Intracom has denied any wrongdoing *Reuter, Athens*

ECONOMIC WATCH

Dutch economy picks up



Dutch consumer spending powered ahead in the first quarter, rising year-on-year by 3.2 per cent, the highest level in 3½ years. According to figures released yesterday by the central statistics bureau, gross domestic product also grew at an unexpected rate: 1.8 per cent year-on-year in the first quarter of this year, and 1.1 per cent against the last quarter of 1995, suggesting the economy has finally picked up after last year's slowdown. Bureau economist Mr Peter Oomens attributed the brisk performance to the strong consumer demand. "The overall picture is that we are doing quite nicely," he said, adding that the Netherlands was "clearly outperforming" Germany, which grew by only 0.5 per cent of GDP last year. The growth in consumer demand was strongest in services, which account for two-thirds of the total. These increased by 3.6 per cent. *David Brown, Amsterdam*

■ Unemployment in Finland stood at 16.5 per cent in April, against 17.1 per cent in March and 18.1 per cent a year earlier.

■ Consumer prices in western Germany climbed 0.3 per cent in May from April and were up 1.5 per cent year-on-year. In April, the pan-German prices index rose 0.1 and 1.5 per cent respectively.

Ex-PM puts Lyons on world stage

By Andrew Jack, recently in Lyons

Mr Raymond Barre has lived his political life in reverse. He was a senior French government representative at the European Commission in Brussels in the 1960s, became prime minister in 1976, and was then elected as an MP.

Last year, aged 71, he became mayor of Lyons, which has been the stage for something of a political comeback. And at the end of June he hosts the G7 summit of heads of the world's leading economies. His controversial first year in office has put a new spring in the step of France's second city, long troubled by an inferiority complex in relation to Paris.

In pushing through radical changes, Mr Barre has been helped by his status as a reluctant candidate for mayor. He gave the impression of standing against his will after Michel Noir, his predecessor, was convicted of corruption.

Mr Barre, who was standing for the council, merged his party's list of aspirant politicians with Noir's after the first round of the municipal elections, reducing the chance of a split vote on the centre-right. This was not universally popular and some candidates withdrew.

His political profile brought some immediate benefits for Lyons – more than 20 government ministers and three heads of state have visited this year alone.

Mr Barre claims not to have lobbied for the selection of Lyons to host the G7 meeting, but there is little doubt that his election helped influence President Jacques Chirac's decision to choose the city just days later.

Mr Barre is making the most of the occasion, likening the meeting to "a debutantes' ball" – a chance for Lyons to show off its hidden charms and attractions to thousands of international visitors.

"Lyons is not very well known or recognised," he says. "I'm always struck by how impressed foreigners are when they visit the city. That is very important for the future. Lyons needs to be much more international."

Preparing for the G7 has been one of Mr Barre's two priorities during his first year in office. The other was a wide-ranging consultation ahead of launching his formal programmes for the city and the wider conurbation over which he also presides.

Details of both policies have been announced in the last few weeks. He has talked about boosting the links between scientific research and business innovation, increasing the importance of public transport and demolishing some of the worst urban redevelopments of the 1960s and 1970s.

Most controversially, he is placing emphasis on social policy, and redistributing city funds to less advantaged districts. He has proposed financial reforms for the Lyons conurbation which would help provide a more even allocation – including higher taxes for richer, more politically right-wing districts.

The challenge of inequality, particularly in the region's deprived areas, is one of his most important concerns. But he plays down the importance of simply providing jobs as a solution.

"What is really needed is not money but to create a dialogue, and to give the people who live in these areas the feeling that they are not rejected," he says.

"It is a problem of relations between the diverse communities. Young people from these areas want to be able to come into the centre of Lyons on Saturday and Sunday and not be considered foreigners," said Mr Barre.

Raymond Barre: the revitalised 71-year-old mayor of Lyons

Bob Dylan provides backing for G7 summit

By Andrew Jack

The singer Bob Dylan will be among some 10,000 people descending on France's second city at the end of June, when world leaders gather for the G7 heads of government meeting.

For months, teams from the industrial world's seven leading economic powers, the European Union and Russia, have been preparing for the visit of their leaders – under strict instructions from France's President Jacques Chirac to keep security to a minimum so that the city remains vibrant while he is there. For Lyons, the G7 is a chance to show off its historic buildings and culinary skills as well as its economic strengths – all the best hotels and restaurants are already booked up.

Officials estimate the costs of the preparations at more than FFr20m ($3.9m), but the visitors are expected to spend FFr27m.

Bullet-proof cars are being flown in to the regional airport. Discussions are in hand to close off some of the city's riverside paths to allow US President Bill Clinton to take his morning jog. Communication centres have been established, press officers hired and preliminary instructions issued – including one from President Chirac's image consultants that he is not to be filmed or photographed eating.

Not all the 1.3m citizens of Lyons are completely happy about the G7 "invasion" – there are concerns about the influx of outsiders causing congestion.

To make up for the inconvenience, the city plans a concert on the Saturday night after the G7 finishes, with an important musician from each of the countries involved. Bob Dylan is the star attraction.

Gazprom's purchase of Hungarian bank to be approved

Russians back in Hungary

By Virginia Marsh in Budapest

Hungary's privatisation agency said yesterday it expected to go through with the controversial sale of the country's oldest bank to the banking arm of Gazprom, Russia's largest company.

APV yesterday declared Gazprom Bank the winner of a tender to buy the state's 50 per cent stake in Altalanos Ertekforgalmi Bank (General Banking and Trust Co), ahead of ABN Amro of the Netherlands and Hanwha of South Korea, saying it had made the best offer, which included a Ft3.5bn ($24m) capital increase for the bank by the end of the year.

The local press – in a country where the last occupying Soviet troops left just five years ago – has viewed the deal with suspicion, questioning Gazprom's motives for buying a small Hungarian bank.

Central bank officials believe Russian and Ukrainian companies channel funds through the Hungarian financial sector. Local commercial banks say some of their most successful branches are in the depressed north-east of the country, thanks to hard currency deposits from over the border in the former Soviet Union. The planned sale comes just days after Mr Tamas Suchman, the privatisation minister, blocked for the second time the sale of a local oil research institute to another Russian company, mainly after pressure from nationalist opposition MPs.

The sale could be a boon for AEB. It is one of Hungary's smallest banks with a balance sheet total of just Ft38bn and only eight branches, all in Budapest. It has representative offices in Russia, Ukraine, Switzerland and Israel.

Gazprom expects to use the bank to manage its financial operations relating to its gas exports to the region

In particular, AEB has carved out a niche in currency operations for foreigners working in Hungary.

Gazprom officials in Budapest said yesterday the company intended to use the bank to manage its financial operations in the region to which it exports hundreds of millions of dollars worth of gas each year. As well as its core gas business – it controls a third of the world's known gas reserves – Gazprom has several industrial holdings and investments in the Russian financial sector.

It is believed that the acquisition of AEB would be its first investment in a bank outside the former Soviet Union.

In Hungary, which is heavily dependent on Russian gas supplies, the company recently formed a joint venture with Mol, the national oil and gas company, giving it a share in Mol's gas transport and pipeline network.

In spite of the opposition, Hungary may find it difficult to sell its stake in AEB to another bank, as Gazprom appears to have already sewn up the other 50 per cent of the bank.

Last Friday, Central-European Development Corp, the regional investment vehicle of Mr Ronald Lauder, the US entrepreneur and one of the heirs to the Estée Lauder cosmetics fortune, signed a letter of intent to sell its 50 per cent stake plus some management rights in the bank to the Russian company.

Crimea enters crime era

Matthew Kaminski reports on how Ukraine's Riviera is now Sicily

The summer holiday season is open in the sunny Crimea, but the peninsula's beaches and palm trees were not on the agenda of the 60 senior law enforcement officers who arrived yesterday.

A crime wave, on top of political instability and economic chaos, has scared away the millions of tourists who used to mingle with the Soviet politburo, whose luxury villas dot the coastline.

"The Ukrainian police must do everything to stop the unfortunate growth of crime during the summer season on the nation's resorts," General Valery Chernishov, the deputy interior minister, said yesterday in Sudak which, with Yalta and Sochi, used to be the pride of the Soviet Black Sea coast.

Growing anxiety over crime comes as the authorities are reporting a slight revival in tourism this season. For the first time since the Soviet Union collapse, all health resorts are fully booked for the summer, according to Ms Ganna Halperina, at the Crimean tourism ministry.

Local officials want occupancy rates at the large state-owned hotels, whose 142,000 rooms last year were only three-quarters full, to follow suit. Fewer than 2m tourists came to Crimea last year, compared with 8m in the years preceding the break-up of the Soviet Union.

More than 90 per cent of private enterprise was reported to be controlled by organised criminals

Ms Halperina attributed the apparent turnaround at the health spas to recent political calm on the peninsula. The Kiev parliament last year removed the autonomous region's separatist president, Mr Yuri Meshkov. The current government was hand-picked by Ukrainian President Leonid Kuchma.

But Crimea has Ukraine's highest crime rate, and it is rising. In the first three months of the year, the number of robberies increased 35.5 per cent, compared with 5.5 per cent in the country at large, according to Mr Chernishov.

About 100,000 employees of 3,100 Crimean enterprises this month went on strike for an hour to draw attention to the problem.

The interior ministry has been handicapped by low funding: only 40 per cent of promised budget support was delivered last year. Police have been implicated in supplementing their meagre incomes through crime. The government has cracked down, charging dozens with a variety of offences. Petty crime is blamed on economic dislocation in a region where industrial output fell 16.3 per cent last year.

Moskovskey Novostiy, a weekly read by thousands of potential Crimean visitors from the Russian capital, last week reported on "criminal feudalism" in Crimea. It quoted the Ukrainian security service as saying that more than 90 per cent of private enterprise was believed to be controlled by organised crime.

Several dozen Russian, Tatar and Ukrainian gangs are fighting over holiday resorts, which technically have not been privatised. Local officials suggest they are being "taken over" by private interests.

The director of Yalta's elegant Oreanda Hotel was gunned down last year – one of 13 contract killings in 1995. There have been 11 this year already.

The challenge for Crimea is to encourage private enterprise and develop the tourist industry in a peninsula which has become Ukraine's Sicily as well as its Riviera.

"I was especially encouraged in the closing days of the campaign that both parties and both candidates expressed in different ways, but still a clear commitment to the peace process."
US President Bill Clinton

"If Netanyahu wins, it is probable that the peace process will slow down."
Mr Lamberto Dini, Italian Foreign Minister whose country holds the European Union's rotating presidency

"The fact that Mr Netanyahu, who was in favour of a harder position, has won, does not substantially change things in the sense that there is no viable nor reasonable alternative to the continuation of the peace process."
Abel Matutes, Spanish Foreign Minister

"A political catastrophe is in the offing - for Israel, for the Middle East and for the whole world."
Guenter Verheugen, Foreign affairs spokesman of Germany's opposition Social Democrats

"Netanyahu has several times underlined that he will pursue the peace process and respect the international agreements that Israel has entered into."
Bjoern Tore Godal, Norwegian Foreign Minister

Returns show swing to more inward-looking, nationalistic Israel

Troop vote to give the final verdict

RACE FOR PREMIERSHIP

It is perhaps apt that the final verdict in Israel's elections will be delivered today after the votes of more than 100,000 young soldiers are counted.

The elections will decide whether Israel presses ahead with making peace with Arab neighbours or resurrects "fortress Israel" and risks turning back to confrontation and possibly violence.

With the race for the premiership still too close to call, the young men who have to fight Israel's wars, patrol the streets of the West Bank and Gaza and defend the country's borders could still tip the balance away from Mr Benjamin Netanyahu, the rightwing Likud leader, back towards Mr Shimon Peres.

Traditionally, conscripts, mostly between the ages of 18 and 22, have voted for the right.. They are expected to do so again, though some analysts hold out a slim prospect that the younger generation has been galvanised towards the Labour party by the hope of peace and the assassination of former prime minister Yitzhak Rabin last November by a right-wing Jewish extremist.

However the soldiers vote, the returns from more than 95 per cent of the electorate show a decisive swing towards a more nationalistic, religious, inward-looking, security-conscious society.

The country remains perilously divided but, among Jews who make up 83 per cent of Israel's 5.6m population, there is a clear vote for the right in the prime ministerial race which became a referendum on the Middle East peace process.

Final results of Israel's Jewish electorate show 55.5 per cent supported Mr Netanyahu and 44.4 per cent backed Mr Peres. The Jewish verdict is one that is against pushing ahead with peace; against the vision of a new Middle East of open borders and economic integration and in favour of tougher security measures against Arabs.

The vote shows that most Israeli Jews remain driven by existential fears about their very survival in an unstable region and deeply suspicious about long-term Arab intentions. Although many wish to embrace the idea of Israel's normalisation in the world, their fears about security are predominant.

The same is true of the economy, an issue pushed way down the agenda by the paramount considerations of peace and security. Mr Netanyahu and Mr Peres have broadly similar macro-economic policies.

They are both committed to the free market, privatisation, trade and foreign exchange liberalisation and increasing Israel's integration into the global economy.

As an opposition leader, Mr Netanyahu has successfully criticised the government's poor performance on reducing its budget deficit, lacklustre privatisation, and failure to curb inflation now running on an annualised rate of 14 per cent.

But the financial community yesterday expressed alarm at the prospect of a right-wing government, with top shares losing 4.4 per cent of their value in a large sell-off and the shekel under severe pressure.

This lack of confidence reflects the belief that the key to growth rests on the trade and investment dividends of peace rather than purely better management of the macro-economy.

It also reflects the fact that many economists doubt Mr Netanyahu will be able to cut the budget in the face of demands from his coalition partners for more spending on Jewish education, on ultra-orthodox organisations, and on building Jewish settlements in Palestinian territories.

Economists say Israel's average economic growth of 6.5 per cent a year since 1992 has partly reflected the economic dividends of peace and partly explains the government's change of spending priorities.

As soon as the Labour party came to power in 1992, it froze settlement building and allocated the money to education and infrastructure. The education budget in 1995 was Sh17.5bn ($5.3bn) against Sh7.5bn in 1991. Last year alone, the government completed work on 1,800km of roads compared to the previous governments record of 780km of roads between 1988 and 1991.

Mr Netanyahu has already committed himself to resuming the settlement drive and more extremists members of his own party and the likely coalition have spoken of trying to double the Jewish population in Palestinian territories, a goal which would involve billions of dollars of spending.

Such a move would considerably undermine the pressing need to cut the government deficit and reduce inflation. The Labour party's efforts to sell its considerable economic achievements were obviously unsuccessful.

The results so far are a clear vote for a more religious Israel in the face of growing pressures of secularisation. Ultra-orthodox Jews voted up to 95 per cent for Mr Netanyahu and the new parliament will see an increase in ultra-orthodox representation by at least 40 per cent from 10 to 14 seats.

The National Religious Party, a modern orthodox party, is predicted to increase its parliamentary bloc from six to 10. What is clear in the results is that many non-orthodox Jews voted for ultra-orthodox parties, particularly the disadvantaged Sephardic or Oriental Jews who voted for the Shas party.

Analysts said this was a vote for a deeper sense of Jewish identity and stronger Jewish education in a more uncertain world buffeted by the globalisation of culture. The rise of the religious parties marks a vote against efforts to tamper with coercive religious laws and the definition of Israel as a state for Jews.

Julian Ozanne

Pragmatic stance on election outcome

Israel's Arab neighbours yesterday tried to play down the impact of an eventual victory by Likud leader Benjamin Netanyahu. In a bout of wishful thinking, some Arab analysts went as far as to suggest that Mr Netanyahu might prove more effective than Mr Shimon Peres, the Labour leader, at delivering real and lasting peace with the Arabs.

Mr Netanyahu has said that, if elected, Israel would hold on to the Golan Heights seized from Syria in 1967, Palestinians would never see the birth of a state, and settlements would begin to rise again on the West Bank. But Syria yesterday said it cared little what party was in power. "Syria is waiting for implementation of UN resolutions seeking Israel's withdrawal from Syrian and Lebanese land, and not opinions of the various Israeli parties," Syrian radio said.

In Gaza, a leader of the Islamist party Hamas, which opposes the peace process, said a Netanyahu victory would be a declaration of war against Palestinians, but Mr Haidar Abdel-Shafi, a city councillor, said Mr Netanyahu's election would make little difference since only international pressure would lead to peace. "We see both Likud and Labour as not willing to concede what is needed for a stable and durable peace," he said.

In Egypt, the semi-official al-Ahram newspaper said the peace process would continue regardless of the winner. "All states in the region realise there is no alternative to the way of peace. If the Labour party and Shimon Peres win, matters will run their natural course... If Likud leader Benjamin Netanhayu wins, preparations to resume the peace process may take some time, but it is certain that it will continue," it said.

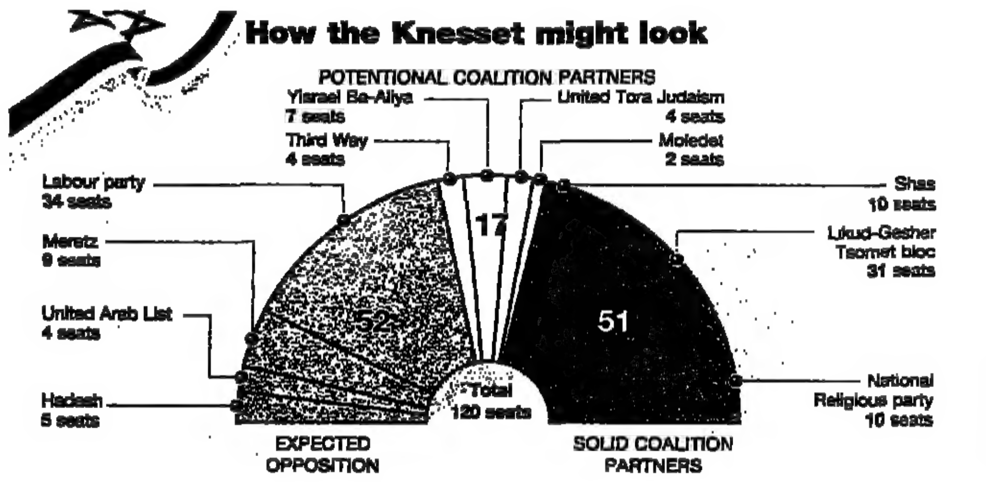
In Lebanon, where yesterday the Iranian-backed Hizbollah took responsibility for a bomb attack in the south that killed two Israeli soldiers, officials refrained from comment.

Some Arab analysts yesterday put a positive spin on events, saying the peace process would stall but eventually Mr Netanyahu would be better placed to deliver peace because he had the ability to convince Israelis the deals would bring them security.

"Peres was the shadow, Likud is the real thing," said one analyst. "We were blackmailed by Peres into accepting whatever he does because the alternative would have been Likud and what we ended up obtaining was only what Likud would agree to. Now at least the cards are on the table. It might be a tougher process but when you reach agreement with Likud you reach a real agreement."

Roula Khalaf

Netanyahu would look to smaller parties



THE RIGHT

With Mr Benjamin Netanyahu, Israel's rightwing candidate for prime minister, maintaining a surprise wafer thin lead over Mr Shimon Peres in the race for the premiership, attention yesterday focused on the type of coalition government he might form. Ultra-orthodox religious Jews and new immigrants from the former Soviet Union will be the winners if Mr Netanyahu and the Likud-led rightwing bloc form the next government.

Israel's new system of direct elections for the prime minister has limited the power of the traditionally dominant parties and increased the representation of small parties based on ethnicity, religion or single issues. But it has made coalition forming easier by increasing the power of a directly elected prime minister to pick coalition partners and play one party off against another.

Analysts said Mr Netanyahu would be easily able to form a comfortable majority in the 120-member parliament united behind the rightwing platform of freezing the peace process with Palestinians, renewing the potentially incendiary drive to construct Jewish settlements in the West Bank and refusing to negotiate peace with Syria based on giving up the Golan Heights.

However, it was clear yesterday that Mr Netanyahu risks becoming captive to more rightwing extremists within his own party and within any broader coalition. Big names in the Likud bloc such as Mr Ariel Sharon, defence minister during Israel's disastrous 1982 invasion of Lebanon, and Mr Rafael Eitan, former army chief who once compared Palestinians with cockroaches, will exert pressure to shift Mr Netanyahu further right.

The single biggest issue likely to unite potential partners is the resurrection of the idea of Greater Israel backed by security arguments and a religious sanction against surrender of the biblical land of Israel.

The coalition will also be united on massively increased spending for religious Jewish education and more incentives to increase Jewish immigration to Israel.

The Likud bloc and the National Religious Party, a rightwing group committed to Greater Israel, embracing the Golan Heights and the Palestinian territories, and supported by Israel's 140,000 Jewish settlers, will form the backbone of the coalition. Between them they are predicted to take 41 seats.

Unlike the Likud, the NRP, led by Mr Zevulum Hammer, contains no dovish elements. They support limited municipal autonomy for Palestinians but only within the context of absolute Israeli control over security and heavy handed measures against "Arab terrorism". They wish to give the Israeli Defence Forces a free hand to re-enter areas of Palestinian self-rule and totally oppose a Palestinian state or the removal of a single Jewish settlement on Palestinian land. More importantly, they are committed to doubling the Jewish settler population in the West Bank and Gaza Strip.

With the NRP, Mr Netanyahu will seek to avoid including Moledet, a ultra-right racist party which advocates transferring the Palestinians out of the West Bank and Gaza Strip to neighbouring Arab states and expelling the Islamic Waqf, which administers control over Jerusalem's Dome of the Rock, the third holiest site in Islam.

But Mr Netanyahu will use the threat of a coalition including Moledet, predicted to win two seats, to pressure ultra-orthodox parties and Mr Natan Sharansky, leader of the Russian immigrant party, into favourable terms.

The Shas ultra-orthodox party, led by Mr Arye Deri and representing disadvantaged Sephardic or Oriental Jews, and Mr Sharansky's party will also be vital to Mr Netanyahu's coalition. Shas is predicted to win 10 seats and Mr Sharansky's Yisrael Ba-Aliya party 7 seats.

Shas, and its dovish spiritual guide Rabbi Ovadia Yosef, joined the Labour-led coalition in 1992 and voted for the 1993 Oslo Israeli-Palestinian peace accords. But the party dropped out later that year and voted against the subsequent "Oslo 2" accords which led to Israel's military withdrawal from Palestinian towns in the West Bank.

Shas' views on the peace process, however, are secondary to massive increases in spending on Sephardic Jewish schools and organisation and maintaining strict Jewish law as the basis of the state.

Mr Sharansky's Yisrael Ba-Aliya party shares the Likud view on the peace process and wants better benefits for new immigrants.

With the NRP, Shas and Yisrael Ba-Aliya, Mr Netanyahu will be able to count on 58 votes. He will then have to decide whether he must bring in the Third Way, a breakaway party from Labour which campaigned on the single issue of no territorial compromise on the Golan Heights or the United Torah Judaism party, an ultra-orthodox party. Both parties are predicted to get four seats each.

Julian Ozanne

Sharansky breaks into the political limelight

IMMIGRANTS

Mr Natan Sharansky's makeshift and eclectic new immigrant party of professors and former prisoners of conscience yesterday emerged from the wilderness of political dissidence to become an essential element in any future Israeli government.

In what amounts to a remarkable political triumph in Israeli democracy, Mr Sharansky's Yisrael Ba-Aliya party, funded by a bank loan of $1.5m, won 167,000 votes in Israel's elections and is predicted to take seven seats in the 120-member parliament. With such a bloc, it is virtually impossible for any government to be formed without Mr Sharansky, now a likely candidate for housing minister.

Mr Sharansky, who spent nine years in a Soviet prison for his efforts to free Soviet Jewry, campaigned on a platform of radical policies to rapidly integrate new immigrants, mostly from the former Soviet Union, into the economic, political and social mainstream.

Dressed in an olive green workers' cap and beaming with excitement, Mr Sharansky, flanked by the new members of parliament from his party, yesterday declared his victory a landmark achievement.

"We believe that what happened was a historical and unique event in the history of Israel and Zionism," he said. "For the first time, new immigrants have become a political force in Israel and equal partners in the decision-making process both for their own fate and the fate of the country."

Mr Sharansky's emergence as a kingmaker of the future coalition government is the culmination of a remarkable human odyssey. After his release from jail Mr Sharansky, now 48, came to Israel in 1986 to campaign for the release of Soviet Jewry and spent the next 10 years quietly learning the political game and fighting for better policies to absorb the 650,000 immigrants who arrived in Israel since 1988. Only last year did he give up on the main parties and decide to form his own party.

The ever impish Mr Sharansky yesterday boasted his party officials were "rookies" in politics and had to fight the big parties who received public funds to fight their campaign. In many towns in the country, Yisrael Ba-Aliya used private apartments and bomb shelters as campaign headquarters. They had no experience and had to educate newcomers, who do not read Hebrew, on how to vote on Hebrew ballot papers containing the names of 21 parties.

"We have to learn this system of political negotiations in the next 48 hours," Mr Sharansky said. "With all the professors and prisoners of conscience in our party it shouldn't be too difficult."


Sharansky: his Yisrael Ba-Aliya party will become essential element in any future government

Widely known for his jokes and cheeky disrespect for authority, Mr Sharansky is nevertheless wedded to the principles of his party platform. His views on Middle East peace make him a lot closer to Mr Benjamin Netanyahu, leader of the rightwing Likud bloc. He recognises limited Palestinian autonomy but is against a Palestinian state, negotiations on Jerusalem and wants security to remain exclusively in Israeli hands. On peace with Syria, he conditions any moves with democratisation of the Damascus regime, a prospect which, he admits, could take 25 years.

He will press for much better housing, health care, employment opportunities and business incentives for new immigrants: for a continuing massive influx of immigrants from the former Soviet Union; and for rapid dismantling of state cartels, privatisation and economic liberalisation. On one issue he might clash with ultra-orthodox parties, who emerged much stronger in the elections. He favours measures to protect immigrants who are non-Jewish, such as Russian orthodox Christians who immigrated to Israel as dependents and are not considered to be Jewish by the state.

"We won't give up our demands," he said, "but we want to resolve these issues by dialogue."

Julian Ozanne

Forex market growth slowing, says BIS

By Richard Lapper and Philip Gawith

The pace of growth in the international foreign exchange market is beginning to slow but dealers and investors are becoming increasingly sophisticated in their use of swaps and other derivatives contracts, according to a report by the Bank for International Settlements.

The report, published today, includes the bank's triennial survey of foreign exchange activity as well as the first central bank survey of international derivatives markets.

Data collected from 2,401 financial institutions show the so-called "gross market value" of derivatives contracts in the over-the-counter market (deals between banks and corporate buyers) amounted to $2,200bn (£1,448bn) at the end of March last year.

Gross market value is the cost which would have been incurred if outstanding contracts had been replaced at prevailing market prices when the data were collected, and, says the report, is the best measure of the size and significance of the derivatives market.

The foreign exchange survey appears to confirm the widespread anecdotal impression that explosive growth in currency trading since the advent of the floating exchange rate era in 1973 has started to slow.

The foreign exchange market grew by 30 per cent – in constant dollar terms – between 1992 and 1995, the same rate of growth as between 1989 and 1992.

The report also confirmed earlier BIS estimates that average daily turnover in global foreign exchange markets last year reached $1,200bn.

Its survey of derivatives markets indicates that foreign exchange dealers and investors are becoming increasingly adept managers of liquidity and currency risk.

The gross market value of swaps and other foreign exchange derivatives contracts amounted to $1,435bn, accounting for nearly two-thirds of the total OTC derivatives market.

By contrast, interest rate contracts – the other big area of derivatives market activity in the OTC market – amounted to $700bn.

In the exchange-traded markets, interest rate contracts accounted for 96 per cent of the business, and foreign exchange only 1 per cent.

The report concludes that "exchanges have failed to compete successfully with OTC markets in this area."

It suggests that OTC instruments enjoyed competitive advantages such as their customised nature, as well as risk reduction techniques and standardised market practices similar to those in exchange-traded markets, which have greatly increased liquidity.

The derivatives survey revises provisional figures released in December last year. BIS officials said that earlier figures for gross market value of $1,700bn had been revised to take into account figures which had not been available earlier.

Similarly, the overall notional value of derivatives contracts – a category which reflects the face value of contracts but not the payment obligations of the parties or the amounts at risk from counterparty default – have also been revised upwards to $47,500bn from $40,700bn.

The foreign exchange survey showed that the dollar – which is involved on one side of 83 per cent of all transactions worldwide, is "by far the most important currency in the foreign exchange market".

It also shows London to be the leading forex centre, accounting for 30 per cent of global turnover (more than for New York and Tokyo, the next biggest markets, combined).

Other findings include:

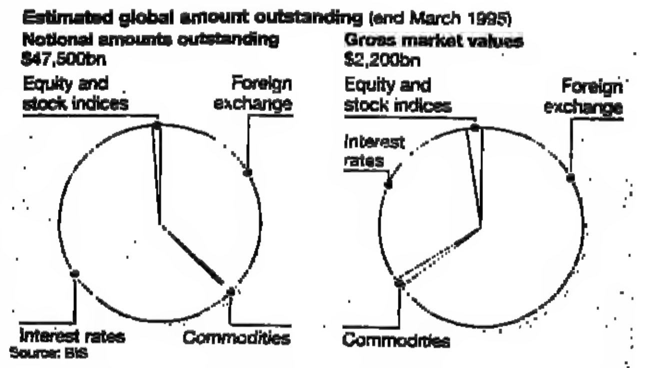
■ London, Singapore and Hong Kong are the most global of the leading centres, with the domestic currency involved in less than 20 per cent of deals. By contrast, in New York and Tokyo the domestic currency is involved in more than 80 per cent of deals.

■ The forward market is bigger than the spot market (settlement within two days), accounting for 56 per cent of turnover.

■ Eighty-five per cent of the forward market consists of swaps, involving the exchange of two currency amounts on a specific date and a reverse exchange for the same amount at a later date.

■ Automated, or electronic, broking accounts for 4-6 per cent of total turnover in London, New York and Tokyo.

Slicing the derivatives pie



Source: BIS

National party strengthens hold in Western Cape

By Mark Ashurst in Johannesburg

South Africa's National Party, which quit the coalition government earlier this month, has consolidated its influence in the Western Cape province which held its first local elections on Wednesday.

A high turnout and solid support from conservative Afrikaners and "coloured" (mixed race) farmworkers in rural areas gave the National Party control of all three district councils, embracing 11 regional councils, in the Southern Cape.

But the African National Congress, which came second to the National Party in elections to the provincial government in 1994, said its support among coloured voters had increased in metropolitan areas where final results are expected today.

The elections were set to take place last November, but were delayed by disputes over electoral boundaries. Local elections in the Inkatha Freedom Party-controlled province of KwaZulu-Natal were also delayed due to persistent violence and administrative problems, but are now due on June 26.

Despite vigorous campaigning by prominent ANC leaders, including President Nelson Mandela, voting in the Western Cape has highlighted the obstacles facing the governing party's attempts to win support across ethnic divides in rural areas.

Coloured voters, the largest ethnic group in the province, backed the National Party in the first all-race election of April 1994 in response to fears of domination by black Africans under majority rule.

The trend recurred this week, as the National Party took control of wards in Atlantis, a township created for coloured residents evicted from another coloured quarter and other metropolitan suburbs during the apartheid era. However, the ANC's share of the vote had increased from 9 per cent to about 30 per cent.

Roger Matthews adds: South Africa's gross domestic product grew 3.3 per cent in the first quarter of this year because of a 82.3 per cent rise in agricultural output. The first-quarter GDP figure was up 0.6 per cent on the previous quarter, but economists warned the other main sectors of the economy were stagnating.

Mr Dave Mohr, chief economist at Old Mutual, the country biggest life assurer, said: "The latest figures do not reflect the impact of higher interest rates, or the fall in the rand, which can be expected to slow consumer spending and new fixed investment".

US revises growth estimate down to 2.3%

By Michael Prowse in Washington

The US Commerce Department surprised financial markets yesterday by revising down its growth estimates to show the economy expanding at an annualised rate of 2.3 per cent in the first quarter, rather than 2.8 per cent as previously reported.

But the revision did little to improve spirits in the bond market because it was seen as laying the ground for faster growth in the second quarter.

The new figures showed corporate inventories falling in the first quarter for the first time in four years. The sharp reduction in stocks of unsold goods means companies will have to step up production to meet buoyant consumer demand in coming months.

Separate data yesterday indicating a robust housing market also fuelled fears that faster growth might put upward pressure on prices and wages. Sales of new homes rose 6.7 per cent last month, in spite of a sharp increase in mortgage rates this year which was expected to depress demand for new homes.

Following upward revisions to previous months, sales are now running at a seasonally adjusted annual rate of 776,000, 28 per cent higher than in April last year. Many analysts expected sales last month of only about 690,000.

By midday yesterday, the benchmark 30-year Treasury bond was down $\frac{1}{8}$ to yield 6.971 per cent, having fallen sharply on Wednesday.

Economists took a more sanguine view than bond traders. They said the economy appeared to be growing roughly in line with its long-run potential, which is put at about 2-2.5 per cent a year. Provided wage and price pressures remain mild, few economists expect the Federal Reserve to raise short-term interest rates in the near future.

"The Fed has the economy where it wants it," said Mr David Wyss, chief financial economist at DRI/McGraw Hill, an economic forecasting group. Growth was likely to accelerate slightly in the second quarter to an annualised rate of 2.5-3.0 per cent, but the Fed would not need to tighten monetary policy until after the November presidential election, he said.

Yesterday's figures showed a drop in inventories for the first time since 1992. Inventories fell at an annual rate of $5.7bn in the first quarter, having risen $16.5bn in the final period of last year. Officials previously estimated that stocks rose $7.9bn in the first quarter.

However, other components of GDP pointed to strong underlying demand. Consumer spending and business investment grew at annual rates of 3.6 per cent and 13.2 per cent respectively in the first quarter. Overall growth of final sales was revised up to an annual rate of 3.7 per cent against a previous estimate of 3.3 per cent.

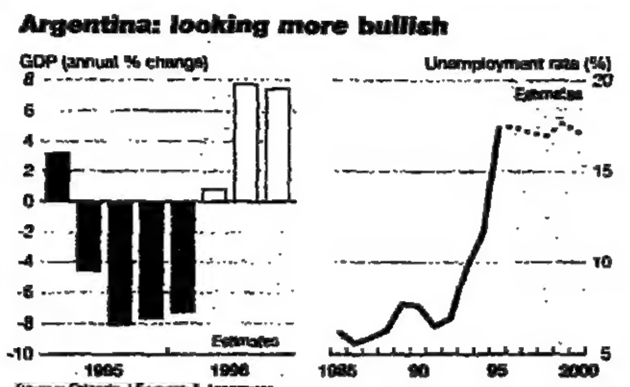
Argentine upturn puts hope back on menu

Optimistic Cavallo is seizing on patchy signs of economic recovery, writes **David Pilling**

Recent television pictures of slum dwellers in Santa Fe province skinning and cooking a cat were hard for most Argentines to stomach. Although the event may have been a put-up job, paid for by an unscrupulous journalist, the image symbolised for many the depth of Argentina's year-long recession and the desperation of many of its 2.4m unemployed.

Small wonder then that credible signs of a recovery, albeit fragile and patchy, have sent waves of relief through the corridors of the economy ministry.

Cavallo: berating the more pessimistic analysts



Source: Orlando J Ferreres & Associates

For months, officials have been painting a bright picture that bore little relation to bleak economic statistics or to growing public discontent. At last ministerial optimism may have some basis in reality.

"We are seeing a genuine, though tenuous, recovery after last year's deep recession," says Mr Orlando Ferreres, a private-sector economist. He estimates that gross domestic product has edged up 0.8 per cent in the second quarter of 1996 against the same period last year. That would be the first positive result after four negative quarters, and follows last year's withering of GDP by 4.4 per cent.

Several recent statistics lend weight to Mr Ferreres' view. Sales of steel have rocketed in the past few months, while car sales, devastated by recession, have begun to recover. White goods purchases are also up, rising 14 per cent in the first quarter against the same period in 1995.

Tax receipts, which closely track consumption, are steadily improving, though not fast enough to meet fiscal targets agreed with the International Monetary Fund.

This week, a much-watched industrial production index produced by FIEL, an economic think-tank, registered its first rise in 12 months, with April's figure 5.3 per cent above the same month in 1995. But even that good news was tinged: April production was marginally below March.

There is still an insufficient body of reliable, seasonally adjusted statistics on which to base a trustworthy assessment of Argentina's economic cycle, says Mr Pedro Lacoste of the Alpha economic consultancy.

Energy consumption, help-wanted advertisements and use of public services – all cited by officials as encouraging leading indicators – have a poor track record in foreshadowing economic activity, he says.

Mr Lacoste, nevertheless, believes the elements are in place for a recovery from last year's recession, which was triggered by an $8bn capital outflow in the months following Mexico's devaluation.

> 'We are seeing a genuine, though tenuous, recovery after last year's deep recession'

Bank deposits have recovered to pre-Mexican levels, interest rates are lower, and consumers – who have reduced their debts – are being tempted to spend as prices fall. The agricultural sector, encouraged by high international prices, is booming. A potential deflationary spiral appears to have been avoided and Alpha is predicting GDP growth of 2.3 per cent for 1996.

Evidence of recovery has been seized on by Mr Domingo Cavallo, economy minister. Higher sales, which have been improving for several months, have since April been reflected in increased production as inventory stocks are used up, he says.

Mr Cavallo, critical of pessimistic analysts, says: "Last year, they said we were entering a recession from which we would never emerge. This year, they're saying the recovery will be very tenuous and that we will only grow by 2 per cent. I predict that at the end of the year, when we are growing at 8 or 9 per cent, they will accuse me of being a Keynesian [for artificially stimulating growth]."

Given Argentina's currency board system, a strait-jacket which prohibits artificial expansion of the money supply, one of the few pump-priming tools at Mr Cavallo's disposal is his eternal optimism. Of the minister's insistence that rapid expansion is just around the corner, Mr Lacoste says: "I would say the same if I were in government."

Mr Ferreres says Mr Cavallo's prediction of 5 per cent growth for this year is "nearly impossible". Even Mr Michel Camdessus, managing director of the IMF and an ardent defender of the Argentine "success story," was evasive this week when asked about the official growth forecast, on which 1996 fiscal targets are based. "I know there is a certain scepticism within Argentina as to whether these goals can be met," he said.

Mr Lacoste warns that strong recovery in 1996 and 1997 depends on several factors, some beyond Argentina's control. He highlights the continued stability of Brazil (on which much of Argentina's export boom is based), the direction of international interest rates, domestic bank lending policy, and the cabinet's ability to stifle latent tensions. If all goes well, Argentina could be clipping along at 6 per cent next year; if not, growth could be half that, he says.

Even if recovery is vigorous, few believe this will have much immediate impact on the 16.4 per cent jobless rate, which opinion polls indicate is the number one concern of Argentines. Unemployment, nearly triple the historic average, is more the result of profound economic restructuring than the ravages of last year's recession, most analysts argue.

That is not necessarily the public perception, though, and the next unemployment figure, due out on June 28, is eagerly awaited.

Should the rate fall, the government will cite this as another sign of economic recovery. But should it rise, the public will take much convincing that things are improving, and thoughts will turn again to desperate images such as that conjured up by the slum dwellers of Santa Fe.

AMERICAN NEWS DIGEST

Venezuelan leader sentenced

Mr Carlos Andrés Pérez, Venezuela's former president, was found guilty yesterday by the country's Supreme Court of having misappropriated public funds during his second presidential term, from 1989 to 1993.

Mr Pérez, 73, has spent the past two years under house arrest, so that his sentence of two years and four months would conclude in September. Under Venezuelan law convicts over 70 years old may serve their sentence under house arrest.

Mr Pérez was absolved of charges of embezzlement.

Upon his release Mr Pérez is expected to begin a tour of the country and may return to active politics. He maintains he is still the leader of the Democratic Action party (AD), the country's largest, which is divided over its support for Mr Pérez. As a former president, Mr Pérez would automatically be entitled to become a congressman for life on his release.

Mr Pérez's economic austerity measures provoked bloody street riots in 1989. He then survived two military coup attempts until forced out of office in May 1993 to face charges of corruption. Mr Pérez, who maintains his innocence, is taking his case to the Inter-American Tribunal in Washington. *Ray Colitt, Caracas*

Peru oil privatisation starts

The privatisation of Peru's state-owned oil producer and refiner Petroperu as a series of separate units is due to start today amid continuing protests. Opinion polls indicate that more than 60 per cent of Peruvians oppose the sell-off.

A protest march was scheduled to take place in Lima late yesterday supported by organisations ranging from trades unions to mothers' clubs, and from shanty-town dwellers to retired military.

The "civic committee" heading the protest is still gathering and processing the more than 1.2m signatures required to call a referendum on the fate of Petroperu. It says this process will continue regardless of today's outcome.

Despite the last-minute burst of opposition activity, on the auction block today will be a 60 per cent stake in the refinery of La Pampilla, Peru's largest, and the concession for an associated northern jungle oilfield known as Block 8, which presently produces a fifth of all Peru's crude. Base price for the refinery has been set at $108m and for the oilfield concession at $75m, with compulsory minimum investment commitments of $50m and $25m respectively over five years. *Sally Bowen, Lima*

Air force officers re-assigned

The US Air Force said yesterday it had relieved a brigadier general and two colonels responsible for overseeing maintenance of the aircraft that crashed in Croatia in April, killing Commerce Secretary Ron Brown and more than 30 others.

In a statement from Ramstein Air Base, Germany, where the crashed Air Force T-43 twin-engine jet had been based, the Air Force said its local commander had lost confidence in the ability of the commander, vice commander and operations group commander of the 86th Airlift Wing "to continue to effectively discharge their duties."

The Air Force statement did not spell out any fault found with the officers, Brigadier General William Stevens, former commander of the 86th Airlift Wing; Colonel Roger Hansen, the wing's former vice commander; and Colonel John Mazurowski, who had headed the 86th Operations Group. An Air Force spokeswoman said that the three were being reassigned to other duties, which were not immediately specified. *Reuter, Washington*

UK groups accuse Saudis on bids

By Tim Burt and Roula Khalaf in London

Some of Britain's largest civil engineering contractors yesterday set themselves on a collision course with the Foreign Office by claiming that Saudi Aramco, the Saudi state oil corporation, has excluded them from bidding for large oil and gas projects in retaliation for the UK's failure to deport Mr Mohammed al Massaari, the Saudi dissident.

Although the Foreign Office claims that UK-Saudi trade has not been harmed by the al Massaari affair, documents leaked to the Financial Times show that UK engineering companies have been dropped from the bidding process for Aramco contracts worth almost $2bn.

Allegations that Aramco has operated an anti-British policy following the government's decision to rescind a deportation order against Mr al Massaari are likely to embarrass Mr Malcolm Rifkind, the foreign secretary.

Last week Mr Rifkind told a Saudi newspaper that Riyadh had assured Britain the presence of Mr al Massaari in London would not lead to discrimination against British companies. Mr Rifkind said he had no reason to doubt these assurances.

He also said he expected no change in the implementation of the al-Yamamah defence contract, the government-to-government deal worth about £2bn ($3.04bn) a year and the centrepiece of commercial relations with the kingdom.

Documents detailing Aramco's latest list of favoured contractors, however, show that no UK-based companies have been named among the bidders for 12 Saudi oilfield and gas plant projects. Aramco was unavailable for comment.

The chairman of one large UK contractor, who asked not to be named for fear of prompting what he called "further "retaliation", said assurances given to the UK government were being interpreted by Aramco to cover only existing orders and not new contracts. The Foreign Office yesterday rejected this claim.

Saudi diplomats said Mr Rifkind was now contemplating a visit to Saudi Arabia to smooth relations between the two countries. If such a visit goes ahead, the foreign secretary will face calls from a number of industrialists to raise the Aramco issue and the potential *fallout on other sectors*, particularly defence.

One industry group, which represents some of the UK's largest engineering contractors, said: "From the evidence we have seen, it is clear that this is a politically motivated move. Companies have been told not to apply for jobs or have mysteriously dropped off the bidding lists."

Of the Aramco contracts, the largest involves a $600m oil production facility in the Shaybab oilfield in south-eastern Saudi Arabia.

According to the documents passed to the Financial Times, the six bidders on the shortlist are Bechtel, Foster Wheeler and Brown & Root – all of the US – JGC and Chiyoda of Japan, and Snamprogretti of Italy. Bidders for most of the other contracts are dominated by US, Japanese and German engineering groups.

Mr Roger Barber, director of trade relations at the London-based Middle East Association, said: "If UK companies have been left off the bidding lists, it is a serious development and one which we can only deplore."

Last month contractors including Davy, John Brown and Babcock International blamed Britain's handling of the al Massaari affair and media criticism of Saudi Arabia's human rights record for the loss of several big orders, including a $1bn iron and steel plant.

Babcock issued a profits warning after claiming it had lost $200m of business. Babcock claims assurances refer only to contracts already awarded and not to new business. But a Foreign Office spokesman insisted yesterday that assurances given to Mr Rifkind were meant in general *terms and were not specific to* past or present deals.

Davy is now waiting to hear news on another $250m project for the Saudi Iron and Steel company at al-Jubail. It hopes that securing the contract will make up for the loss last month of a $1bn project for the same company.

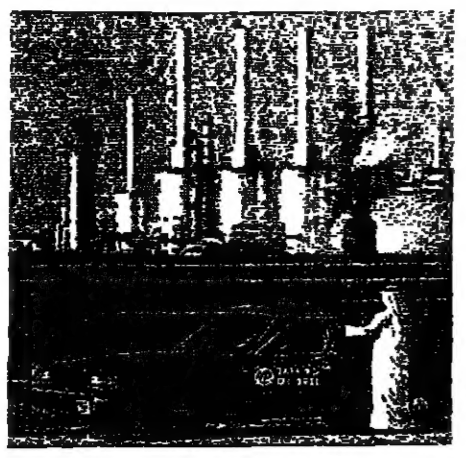
However, the Middle East Association – representing 300 companies – warned that some contractors might have used the tension in UK-Saudi relations as a convenient smokescreen for their failure to win new business. Claims of discrimination were also dismissed by the UK government's Committee for Middle East Trade (Comet), part of the Department of Trade and Industry.

Other industry observers suggested that British contractors might have been left off the bidding lists because of the increased competitiveness of overseas rivals, particularly the Japanese.

Saudi Arabia: no UK companies on Aramco's list

Shaybah programme

- $600m Shaybah production facilities
  3 US bidders, 2 Japanese, 1 french
- $100m downstream processing facilities
  4 US bidders, 1 Japanese, 1 French
- $500m Shaybah to Abqaig pipeline
  2 US bidders, 2 German, one each from New Zealand, Italy, Greece and Argentina
- $160m infrastructure & residential complex
  2 US bidders, 2 French, one each from Germany, Italy and Greece
- $75m communications facilities
  3 US bidders, one each from Germany, Italy, Japan, canada and Netherlands



Other programmes

- $190m Uthmaniyah gas plant treating facilities
  2 US bidders, 2 Japanese, one each from Canada, Italy, US/Swiss/Swedish
- $140m Riyadh products supply system
  2 US bidders, 2 Italian, one each from Canada, Italy, New Zealand, US/Swiss/Swedish
- $100m Qassim product supply system
  2 US bidders, 2 Italian, one each from Germany, Canada, New Zealand
- $100m Beri gas plant HP DGA and sulphur facilities
  2 US bidders, 2 Japanese, one each from Canada, Italy, US/Swiss/Swedish
- $34m domestic refineries instrumentation & control modernisation
  7 US bidders, 1 Canadian

Slovakia signs N-plant credit agreements

By Vincent Boland in Prague

Slovakia yesterday signed credit agreements worth nearly $900m with a group of banks to finance completion of its controversial Mochovce nuclear power plant, and said an older plant it is meant to replace would be shut down within six years.

The financing agreements, among the largest the country has entered into, were signed with a consortium of local banks and with four foreign banks, including Komerční Banka and Ceská *Spořitelna of the Czech Republic, Kredi*tanstalt für Wiederaufbau of Germany, and France's Société Générale.

The signing ends several years of controversy over Mochovce, work on which was started under the communist regime in former Czechoslovakia. Work was suspended in 1991 for lack of money and Slovakia came under intense pressure from neighbouring Austria to abandon the plant.

The project was revived after the European Bank for Reconstruction and Development offered to finance it after energy prices increased by 30 per cent, *and in return for a guarantee that the* Bohunice plant, which uses Soviet technology from the 1960s and 1970s and is regarded by nuclear experts as unsafe, would be closed by the year 2000.

The Slovak government rejected these conditions and pursued other means of financing, with Russian backing. These were put in place yesterday, about two months after agreements were signed with Mochovce's main contractor, the Czech nuclear engineering group Skoda Praha, to restart work on Mochovce.

Siemens, the German high-technology *group, and the French energy compa*nies Framatome and Electricité de France will provide safety systems and quality assurance technology recommended by the International Atomic Energy Agency and Riskaudit, the Franco-German consultants.

Slovakia has pledged Mochovce will conform to international safety standards but has always insisted on completing the plant, saying it was vital for energy needs. The two blocks at Mochovce on which work recommenced earlier this year are 90 per cent complete, while two further blocks are *expected to be finished by 2005.*

EU still hopes for shipping accord

By Frances Williams in Geneva

The European Union said *yesterday it had not given up* hope of reaching a multilateral accord on international shipping in the World Trade Organisation by the deadline of June 30, despite Washington's declared intention last Friday to leave the talks.

Negotiators from the EU and about 25 other countries met in Geneva yesterday to continue work on a common package of market-opening offers that they plan to put to a high-level meeting of senior officials next Tuesday.

"*If the offer is really* good and convincing it should allow the US to reconsider its position," said Mr Karl Falkenberg, the EU's main negotiator on services. "The aim is still to bring the US on board."

The EU has been working with like-minded countries since early last week to come up with a high-quality package which they would implement in return for a matching offer by the US. These discussions are expected to resume on Monday.

Trade officials said all the participants were ready to continue their efforts but admitted the US announcement might have prompted some to ask whether they really needed to go the extra mile on their own offers.

"That may be precisely the effect the US was trying to achieve," said one, noting that Washington had deliberately pre-empted presentation of the package.

The US, which claims to *have the most open* international shipping sector in the world, said it did not intend to make an offer on maritime services because other countries' market-opening proposals were "woefully short of the objectives".

If Washington maintains its present stance, trading partners will have to consider whether to try to reach a deal without the US, as they did in financial services last year. Another option would be a *postponement.*

WORLD TRADE NEWS DIGEST

Romanians win air parts deal

Romaero, Romania's main civilian aircraft manufacturer, is to produce parts for Bombardier of Canada's CL-415 hydroplane, including more than half of the aircraft's body.

The value of the contract has not been disclosed. But *Romaero officials yesterday* said the work, due to begin in 6-8 months, would eventually contribute about a quarter of its turnover. The company, based at Baneasa on the outskirts of Bucharest, last year made pre-tax profit of 1.36bn lei ($450,000) after increasing turnover in real terms by 28 per cent to about 18bn lei.

Until 1993, Romaero made BAC 1-11 jets in partnership with British Aerospace. It has recently won contracts for repair work and parts *production from other western companies* due to its low-cost, skilled workforce. Bombardier's CL-415 is a leading hydroplane and is used mainly to extinguish fires. It is also used for surveillance and reconnaissance and for passenger transportation. The Canadian company recently won an order, worth up to $425m, for several passenger aircraft from DAC-Air, a new private airline which has just begun services. *Virginia Marsh, Budapest*

S Korea faces WTO complaint

The US has filed a new complaint at the World Trade Organisation over South Korean testing and inspection procedures for imported fruit and vegetables.

US officials told a meeting of the WTO's sanitary and phytosanitary committee earlier this week that the measures were delaying consignments at customs points by up to four weeks, compared with the 2-5 days normal elsewhere.

The US brought a similar complaint to the WTO last year. But Washington says the outcome of consultations with Seoul at that time was simply the replacement of certain procedures by others that were just as obstructive, opaque and without scientific justification. The measures objected to by Washington include methods of inspecting fruit for chemical residues, compulsory 10-day fumigation against vegetable parasites, obligatory sorting to remove damaged fruit and vegetables, incubation tests even where the goods are accompanied by a certificate of disease-free origin, and strict food regulations. *Frances Williams, Geneva*

Russian plea to trade partners

Russia yesterday urged trading partners to speed up the pace of talks on its application to join the World Trade Organisation. In a clear reference to the presidential election on June 16, Mr Georgiy Gabounia, deputy trade minister, said a gain in momentum was "very much expected in Russia, in particular at present".

Addressing the third meeting of the WTO working party negotiating Russia's entry terms, Mr Gabounia said that since the first meeting last summer Moscow had supplied answers to more than 1,600 questions on its trade regime for goods, services and intellectual property. The working party yesterday focused on access to Russia's market for services, especially restrictions in the banking sector and for construction services. *Frances Williams*

■ Alcatel of France yesterday signed a contract for about E£60m ($18m) to install the infrastructure for a digital mobile phone system in Egypt. *Reuter, Cairo*

■ Alusuisse Singen, a unit of the Swiss aluminium, packaging and chemicals group, has won a DM75m ($48.8m) contract to supply Germany's Audi with roof railing systems for its A6 *Avant and A4 Avant models.* *Frances Williams*

General Motors' Thai hub will boost drive into Asia

Early in May, the board of General Motors was shown five colour slides. Condensed into the short presentation was 18 months of research, planning and often frustratingly public negotiations between GM executives and officials from the Philippines and Thailand.

Yet by the end of the board meeting, GM had committed itself to invest $750m in Thailand to establish a production facility that will be a main centre of the carmaker's operations for all of Asia.

For GM, the decision is the beginning of a high-profile return to the Asian vehicle market, which it, along with other US carmakers, abandoned to the Japanese by the end of the Vietnam war. Now playing catch-up before the market matures, the company hopes to seize 10 per cent of the market by 2005.

For Thailand, GM's decision is the confirmation that the country is the motor vehicle capital of south-east Asia, as by the end of the decade all the main Japanese and US carmakers will be using it as an export base. Within four years, production in Thailand will be more than 1m units per year, more than the rest of south-east Asia combined.

GM, largely on the strength of its Japanese affiliate, Isuzu, *sold 623,550 cars and pick-up* trucks in Asia in 1995 via a hodgepodge of five assembly plants and import arrangements. Needing to sell an additional 1m vehicles annually to reach its sales target, company officials say they quickly realised that "we can't just import cars and kits. We have to build in the region for the region".

Expanding existing facilities was ruled out quite quickly, for reasons of both quality and cost. An investment outlay for a greenfield site where the *latest technology would be used* – up to 80,000 of the Opel-brand cars built at the new plant are expected to be sold in quality-conscious Japan, for example – could only be made once. And the promise of free trade within rapidly growing south-east Asia had GM initially looking at every Asean member.

Two countries immediately eliminated themselves. Malaysia's national car programme made it a non-starter, while Vietnam's confusing licensing arrangements and underdevelopment were problems GM was not about to get involved with.

The remaining countries were evaluated on the basis of three factors: cost, size and potential of the home market, and infrastructure – *a broad* category that includes labour supply, physical infrastructure and availability of parts suppliers, or at least potential to develop a parts industry.

On the basis of pure numbers, Thailand seemed the *obvious choice*. Vehicle sales of 571,580 in 1995 are expected to grow to 915,000 in 2000, with strongest growth in passenger cars, which GM's new facility *will focus on*. In the Philippines, 1995 vehicle sales of 128,897 are only expected to reach 280,000 by 2000.

Thailand also had an advantage in the availability of parts, with many of the existing manufacturers relying on *Thai-based suppliers for up to* 70 per cent of a vehicle's content. Even before GM made its decision, its autoparts subsidiary, Delphi Automotive Systems, had announced a $12m investment to supply Toyota and Chrysler with steering columns.

And the fact that 11 car manufacturers already operate in Thailand was a sign that the country's infamous physical infrastructure and labour bottlenecks could be overcome.

But as a 15-person project team based at regional headquarters in Singapore started to build up an actual business case for each country, things surprisingly began to blur.

Offers from the Philippines, not specific to GM, in terms of *development zones, tax breaks* for training and on profits, land costs and lax local content rules are not only clearer than in Thailand but so attractive GM was forced to enter serious talks with both countries.

Simultaneously, GM got another jolt. Philippine officials, largely for domestic political reasons, decided to make the negotiations public. Every trip by the GM project team to Manila was accompanied by a new offer of incentives, always leaked to the press.

The Philippines would waive import duties on capital equipment, pay for training, and upgrade infrastructure specifically around the proposed site.

Much to GM's relief, things were a lot quieter in Thailand. The Thais were not about to negotiate through the media, partly because with other manufacturers to think about, they had little to negotiate with.

"*We are not going to get into* a bidding war on incentives," said Mr Staporn Kavitanon, head of Thailand's Board of Investment, at the time. "We can't give different (incentive) packages to different countries."

But Thailand actually did make a crucial concession. Already having agreed at World Trade Organisation negotiations to waive domestic content requirements by 2000, it moved that waiver forward two years to 1998. The catch was that the waiver would apply not just to GM but to the entire industry. The Japanese, responsible for building Thailand's vehicle industry in the first place, benefited as well.

"President Ramos wrote to (GM chief executive) Jack Smith. The Thai prime minister certainly didn't do that," says a GM executive. "Things like that prolonged the decision."

The parts situation was also becoming less clear. There were parts being produced but mostly by Thai-Japanese joint-ventures with exclusive technology-licensing agreements from their parent companies.

Chrysler, with its low volumes, and Ford, via its Mazda link, *could count on many* of these suppliers, but in a high-stakes regional competition with GM, Japanese manufacturers might balk.

GM executives now admit that they couldn't quantify these other considerations, which made it more difficult to present a justification for an investment in the Philippines. Thailand leaped back to the front of the pack.

"In the end we have to maximise the return on investment, not choose a location because its easier to implement the business plan," said one executive involved in the process from beginning to end. "So we chose to err on the side of caution and reduce the risk element as much as possible. We don't necessarily need to be first in the market."

Asian car sales: GM enters the fray

	1995 (000)	2000[1] (000)	Top Seller
Japan[1]	6,887	7,120	Toyota
South Korea[1]	1,536	1,640	Hyundai
Thailand	572	915	Toyota
Malaysia	286	420	Proton
China	1,415	2,210	VW
Vietnam	12	55	Kia
Philippines	129	280	Toyota
Indonesia	384	675	Toyota[2]
Australia[1]	637	675	Ford
Singapore	47	N.A.	Mercedes Benz
Taiwan[1]	573	598	Ford/Mazda

1 projected, figures for Japan, South Korea, Australia and Taiwan are for 1997 2 National & Toyota
Sources: Automotive Resources Asia; Economists Intel Unit

SE Asian car sales

Brand	Market share %
Toyota	22.1
Isuzu	12.6
Mitsubishi	12.2
Nissan	9.9
Proton	8.5
Suzuki	5.8
Daihatsu	5.6
Honda	4.2
Mazda	2.5
Mercedes Benz	1.9
US Automakers	1.1
Others	13.6

Total Southeast Asia Sales 1,332,807
(Thailand Philippines, Malaysia, Indonesia)
Source: Automotive Resources Asia

Ted Bardacke on why the Philippines lost out over GM's plans for a manufacturing base

South Korea and its historic adversary Japan vie to host the 2002 football series

World Cup rivalry reopens old wounds

By John Burton in Seoul and Emiko Terazono in Tokyo

Seoul's Olympic stadium will be packed tomorrow night with either very happy or very angry Koreans.

As many as 70,000 people will gather inside the huge concrete structure to await word from the Zurich HQ of the Fédération Internationale des Football Associations on whether South Korea or its historic foe Japan will host the 2002 World Cup.

The closely fought World Cup bid has become an obsession for South Korea, which believes its national pride is at stake. The rivalry between Korea and Japan has reopened old wounds that stem from Japan's harsh colonial rule of the Korean peninsula between 1910 and 1945. The entire country has been enlisted in a campaign to promote Korea's bid through numerous World Cup festivals.

Korea's World Cup logo has become as ubiquitous as the Taegukki (the national flag) and is plastered on everything from building sites to phone cards. Analysts predict the World Cup games could add at least $1bn to the domestic economy and increase sales of Korean products by $7.5bn because of global exposure during the event.

Emotions bordered on hysteria as Korean fans jammed the Olympic stadium over the past week to watch the national team beat the apparently jet-lagged AC Milan and Juventus teams in friendly publicity matches. Koreans hope their soccer prowess (they have qualified four times for the World Cup finals) and enthusiasm will overcome Japan's financial and infrastructure strengths.

Despite the military drill teams that seem to feature prominently in the World Cup pageants, Koreans argue: "World Cup will contribute North-South peace", as one banner at a Seoul intersection puts it. Officials suggest Seoul may co-operate with North Korea on World Cup games in an attempt to improve ties.

In contrast, Japan appears almost indifferent to the World Cup, with Japanese showing less interest in the event than Koreans. One poll revealed only 60 per cent of Japanese knew Fifa would make its World Cup decision tomorrow against 90 per cent of Koreans. Japanese commentators have made pointed remarks that this reflects their country's "maturity".

Japanese officials express worries about the Korean reaction if Seoul fails to get the World Cup games, with some predicting bilateral relations could nosedive. Others fear for the safety of Japanese in Korea.

"If Japan loses, people will just say 'Oh, well', but if Korea loses, the Japanese embassy in Seoul will probably be burned down," one Japanese politician said. Mr Tsuneo Watanabe, president of the Yomiuri Shimbun newspaper, suggested Tokyo give way to Seoul on the World Cup games.

"To allow international relations to be harmed by sports is nonsense," he said. But this has not stopped both sides conducting campaigns against each other, with allegations of lavish spending to gain crucial Fifa executive committee votes.

Korean and Japanese officials believe the Fifa decision will be close, and the outcome may be determined more by Fifa internal politics than the merits of the host-country candidates. Mr Joao Havelange, Fifa president, has endorsed Japan's bid; this may encourage Fifa members who oppose his rule of soccer's governing body to support Korea in protest.

Opposition to Mr Havelange is strongest among the eight European Football Union (Uefa) representatives, who have proposed the World Cup games be co-hosted by Japan and Korea in an attempt to end their bitter contest. Mr Havelange has rejected the idea.

Other Fifa members have suggested they will support the Uefa proposal at a meeting today because it would establish a precedent for allowing poor nations to share the financial burden of hosting future World Cup games. Even if the co-host concept is approved, it will not necessarily establish peace between Korea and Japan. It would still have to be decided where, whether Seoul or Tokyo, the final game would be held.

Contracts debate may undermine Havelange

By Jimmy Burns in Zurich

Football, declares Fifa's 90-year commemorative brochure published two years ago, "is a sport that does not bend to the whims of politics but, on the contrary, takes on the role of mediator wherever there is strife and helps to heal wounds where there has been conflict."

Nevertheless, the signs are that when the 21-man executive committee of world football's governing body meets at its headquarters in Zurich today and tomorrow, it will be hard pressed to calm one of the most acrimonious and potentially divisive debates in the organisation's 92 years.

At stake is the political stability of part of the Asian continent as well as the future conduct and control of contracts worth millions of dollars, by an impressive worldwide enterprise with more member countries than the United Nations.

The meeting kicks off behind closed doors with a formidable 30-point agenda, with topics ranging from the status of new national football associations in Guam and Andorra to the problems of playing at high altitude in Bolivia.

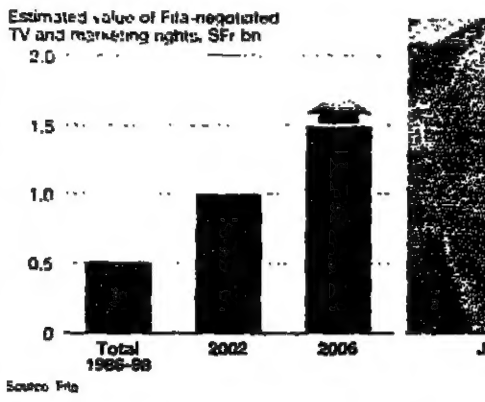
However, the focus of today's meeting will be the negotiation of TV and marketing contracts for the 2002 and 2006 World Cups worth a combined estimated total $2bn.

Tomorrow the committee will tackle the no less potentially explosive issue of where the 2002 World Cup should be held, deciding between the rival bids of South Korea and Japan – that is, if the Fifa presidency succeeds in blocking further moves towards a co-hosting of the cup, as favoured by some committee members.

Last month, the eight European members, under siege from an unprecedented lobbying exercise by both countries, wrote to the Fifa president, Mr João Havelange, with the following warning: "It is increasingly obvious the fear of losing has become almost more important than the desire to win... the two parties have displayed a level of agitation which is very disturbing. It is clear the federation, and indeed the nation which loses the bid, will suffer a devastating blow."

Similar agitation has surrounded Fifa's existing 12-year broadcasting and marketing contracts, with the European Broadcasting Union and ISL respectively, which expire after the 1998 World Cup in France.

Rising revenues from the World Cup



Source: Fifa

João Havelange President, Fifa

The contracts were negotiated in 1986, in the year of the Mexico World Cup, almost entirely by Mr Havelange, Fifa's general secretary, Mr Joseph Blatter, and the Mexican Fifa vice-president, Mr Guillermo Canedo, when the executive committee was, according to a Fifa insider, "little more than a rubber-stamping operation".

With the phenomenal growth in the value of sponsorship and TV in sport, the 12-year deal has come to be seen as commercially anachronistic and the product of an unaccountable autocracy.

As a result, pressure has grown for Fifa to maximise its revenue from a deregulated market in the future, by throwing open future contracts to a wide range of bids. This has been accompanied by calls for greater internal democracy.

Last month, European committee members warned they were prepared to reject Mr Blatter's interim report on the bidding at today's meeting, in effect declaring a vote of no confidence in the organisation's leadership.

The growing row over the negotiation of the contracts in recent weeks has included statements critical of the Fifa leadership and intensive behind-the-scenes lobbying led by Mr Chung Mong Joon, the South Korean vice-president of Fifa, who represents Asia on the executive committee.

On April 22, Mr Chung wrote a four-page letter to Mr Lennart Johansson, another Fifa vice-president and head of the European football authority Uefa, in effect seeking to consolidate a powerful alliance against the present Fifa leadership.

In the letter, part of an extensive Fifa internal correspondence which has been made available to the FT, Mr Chung writes of speculation that a TV deal for 2002 and beyond may already have been informally concluded: "I hope this is not true. However, whether this is true or not is irrelevant; the real problem lies with the procedure, not the outcome. If the procedure is wrong or unfair, the outcome cannot be valid, regardless of its benefits or value".

This was the latest broadside delivered over the last year by Mr Chung. He has objected to what he sees as Mr Havelange's lack of neutrality over who should stage the 2002 World Cup, after publicly stating that historically the process and decision-making on the marketing and TV contracts had been "handled by very few people behind closed doors".

In the run-up to this weekend's meetings, Mr Johansson, hoping to win over some of Mr Havelange's supporters, has struck a non-confrontational approach, declaring Fifa's best interests lie in unity. But it was he who set the agenda more than a year ago by calling for much greater democracy to be brought into Fifa decision-making while unveiling a public document backing a fundamental change in the way world football is administered in the next century.

Mr Johansson, who has announced his candidacy for the presidency of Fifa in 1998, presents himself as a democratic alternative to Mr Havelange.

Nevertheless, the public debate over accountability in Fifa is also about power and money, and may in the end have very little to do with democracy. As one Fifa insider put it: "Suddenly people realise that football is big business. It's all a fight about a bigger slice of the cake. There is really nothing ideological about it."

Manila business chief may face new tax charge

By Edward Luce in Manila

Philippine government lawyers are preparing a fresh action for alleged tax evasion against one of the country's most powerful executives, Mr Lucio Tan, Philippine Airlines chairman, who is awaiting a court verdict on a separate tax-related charge.

The government fears the pending court decision, due next Tuesday, will clear Mr Tan, who is also the owner of Fortune Tobacco and the Asia Brewery beer company.

A defeat for the government would be a setback for its public campaign against alleged corporate tax evasion.

Separately, the supreme court yesterday dismissed an injunction by a minority shareholder of PAL which sought to prevent Mr Tan from taking full control of the loss-making national flag carrier.

Yesterday's ruling ends 15 months of legal wrangling between Mr Tan and other shareholders, and removes the final obstacle to Mr Tan's majority control of PAL. He intends to double PAL's capital stock to 10bn pesos ($383m) and embark on a $3.2bn overhaul of the fleet in the next months.

The government has portrayed the case against Mr Tan as an important symbol of its determination to crack down on alleged corporate tax evasion.

According to the Bureau of Internal Revenue (BIR), the country's main tax-collecting body, fewer than 10 per cent of the Philippines' 30m wage earners paid taxes in 1995.

This week, the BIR published a table of the top 1,000 taxpayers, though the list did not include the name of Mr Tan.

Next Tuesday's Supreme Court ruling apparently hinges on whether the five-member panel accepts Mr Tan's contention that the BIR broke the law when it launched its investigation into his tax affairs in 1992.

Lawyers for Mr Tan claim the BIR failed to notify him of the investigation 30 days before it was launched, infringing his statutory rights.

A court ruling against Mr Tan on Tuesday would trigger full-scale prosecution by the BIR for alleged evasion of $1bn tax. The government claims Mr Tan set up "ghost" marketing subsidiaries, which he denies, enabling him to under-declare production costs at his tobacco and brewery companies, to minimise value added tax payments.

If the court rules in Mr Tan's favour, the BIR says it will appeal to the full bench of the Supreme Court. If Mr Tan is successful, government lawyers say the decision would cast doubt on about 100 other tax-related cases similarly affected by the 30-day "notification rule." Two of these cases are said to involve members of the family of the late dictator Ferdinand Marcos.

"If Mr Tan's case is thrown out, our efforts to modernise the tax system will come to nothing," Ms Liwayway Vinzons-Chato, BIR commissioner, said yesterday.

Tan: injunction dismissed

No link exists between Mr Tan's victory in the PAL court case yesterday and the alleged tax proceedings against him, but he will derive political kudos by assuming full control of the airline.

He is now better placed to step up his lobbying to dilute the proposed shift in government legislation from ad valorem to specific excise taxes. The tax bill is expected to be voted on in the next two months.

India's new PM prepares to juggle ministries

By Shiraz Sidhva in New Delhi

Mr H.D. Deve Gowda, who takes over as India's prime minister tomorrow and will name his cabinet soon after, has a fine balancing act ahead of him.

In the next few days, he will have to accommodate the widely disparate ideologies and aspirations of 13 different parties and leaders within the United Front which he heads, as well as those of the Congress and the small leftwing and caste-based parties which have pledged support to his government "from the outside".

Gowda: priority to poverty

Some regional parties are demanding for their leaders sought-after portfolios such as finance, commerce, industry, home, and external affairs, before deciding to join the government or to support it from the outside.

Who fills these key jobs, especially the finance and commerce portfolios, could determine the future of India's economic reforms, a market analyst in Bombay said.

"Though the markets were gung-ho and the Bombay Stock Exchange soared 104.44 points on Wednesday [before stabilising yesterday] when news broke that Mr Gowda, who is widely considered pro-reform, would be PM, a lot will depend on whether he includes reformers such as Mr P. Chidambaram in his cabinet or yields to pressure from different groups and inducts leaders with socialist-leftist leanings."

In his first interview after being invited to form a government, Mr Gowda said he would give priority to tackling the problems of poverty and unemployment, particularly in rural areas.

"There can be no differences on these burning issues facing the nation," he declared.

Mr Gowda, who will seek a vote of confidence in parliament on June 7, five days before a deadline set by President Shankar Dayal Sharma, has strongly objected to the widespread impression that Mr P.V. Narasimha Rao would be the "back-seat driver" of his government. "Mr Rao has made no such attempt," he said.

Congress has insisted it would withdraw support for the United Front if it does not continue with the reform policy started by Mr Rao in 1991.

The Communist Party of India (Marxist), which declined to join a government propped up by Congress but will extend its support from the outside, has already stipulated that leaders whose names have been linked to a money scandal which broke earlier this year and resulted in the resignation of seven cabinet ministers, should not be given a cabinet berth.

The CPI(M), the bitterest critic of Mr Rao's free-market reforms, is supporting the nomination of Mr Deepak Nayyar, an academic who was chief economic adviser to Mr V.P. Singh's government in 1989, for a top post in the finance ministry.

Mr S. Jaipal Reddy, spokesman of the United Front, said yesterday an informal group representing all 13 partners in the coalition was drafting a common programme, to be announced tomorrow, that would form the basis of the new government's economic and social policies.

He added that self-reliance was not to be confused with self-sufficiency, admitting that the swadeshi concept of economic nationalism promoted by the Hindu rightwing Bharatiya Janata party, which resigned earlier this week ahead of a vote of no confidence which it was certain to lose, meant much the same thing. "The search is on for consensus and not conflict," Mr Reddy said.

ASIA-PACIFIC NEWS DIGEST

China pledges non-interference

China yesterday pledged not to interfere in Hong Kong's financial system after next year's transfer of sovereignty and indicated it was prepared to support the Hong Kong dollar in the case of speculative attack.

"Hong Kong's currency and financial system will not change," said Mr Chen Yuan, deputy governor of China's central bank. Addressing a financial conference in Beijing, he added that the territory would retain independence in managing its financial affairs.

His comments marked an attempt to reassure investors about China's actions towards Hong Kong after next year's handover of sovereignty and underlined Beijing's backing for the currency link between the Hong Kong and US dollars.

John Ridding, Hong Kong

Moody's to review Thai rating

Moody's, the international rating agency, is to review its rating of Thailand's commercial paper programme and commercial bank deposits for a possible downgrade, thanks to a recent build-up of short-term foreign-currency debt, it said yesterday.

The announcement by the rating agency heightened worries about Thailand's external position, as monthly economic figures published by the central bank yesterday indicated that while the economy continued to slow down, the current account deficit and inflation-generating money supply continued to grow.

The current account deficit in March reached Bt35.5bn ($1.4bn), a 51 per cent increase over February, the central bank said.

Ted Bardacke, Bangkok

Australian deficit widens

Australia's current account deficit jumped sharply in April, to A$1.99bn (US$1.59bn), the highest monthly figure since November. The figure compared with just A$1.2bn in March, and the month-to-month deterioration was the second largest on record.

Economists noted that most of the rise could be attributed to a higher estimated net income deficit, rather than a dramatic swing in the trade data, although these still moved in an unfavourable direction. Merchandise exports were A$103m higher in April, a rise of 1.6 per cent; while imports increased A$381m or 6 per cent.

The balance of payments figures were significantly worse than most analysts had predicted, with most forecasts ranging round A$1.5bn-A$1.7bn.

Nikki Tait, Sydney

Canberra financial system probe

The Australian federal government yesterday launched its much-heralded inquiry into the country's financial system, saying the year-long review would "seek to establish a common regulatory framework for overlapping financial products and propose ways for dealing constructively with further financial innovation".

The inquiry is the first big review of Australia's financial services sector since the Campbell inquiry in the early 1980s, earning it the tag "Daughter of Campbell". The earlier inquiry provided the framework for the deregulation of Australia's financial sector during the 1980s.

One of the main items to be considered in the latest review is how to regulate the financial services sector as distinctions – between banks and insurance companies, for example – become blurred. Also at issue will be the impact technological changes and new delivery mechanisms have on competition and regulation.

The inquiry is expected to look at restraints on takeovers within the banking sector, and also between the biggest life insurance and banking groups. It will report by March 31 next year.

Nikki Tait

Trading reforms proposed at Stock Exchange

By John Gapper, Banking Editor

The London Stock Exchange yesterday published a blueprint for reforms to share trading in the City of London that would allow leading investment banks to retain exemptions for tax in return for providing liquidity.

The exchange's consultation paper envisages a two-tier system in which small orders for shares would be matched electronically on screens, while large "block trades" would be undertaken by firms willing to risk capital.

The plans were published at the same time as another consultation paper from the Securities and Investments Board on the conditions firms would have to meet to continue qualifying for exemption from stamp duty.

The exchange proposes a compromise over the controversial issue of whether the new class of "registered principal traders" (RPTs), who will carry out block trades, should have to post bids and offers for shares on screens.

Its paper rejects this and instead says that RPTs, the equivalent of the 28 marketmakers under the current structure, would be obliged to execute their block trades at least partly through the public order book.

However, the SIB consultation paper also raises the possibility of both the RPTs, and the equivalent on the alternative share market Tradepoint, being obliged to post bids and offers when there are no others there.

Mr Giles Vardey, the exchange's director of market development, said the plans would "increase confidence internationally in what London is doing" by introducing what would be a more transparent and liquid market.

He said the exchange hoped that most trades in the shares of companies in the FTSE-100 index, where the new system will be introduced first, would be carried out on the order book rather than through block trades.

Mr Andrew Large, chairman of the Securities and Investments Board, said firms providing liquidity had to be exempted from tax to give them an incentive, but the right balance of obligations had to be struck.

The exchange also proposed a similar pricing structure to its current one for the new market. This would mean traders being charged a fee related to the value of each transaction, within minimum and maximum figures.

The exchange's members backed a move to a new market structure in a consultation carried out at the start of this year. This would replace the current "quote-driven" system under which prices are set by marketmakers.

The exchange's directors are to present the plans to investors and member firms around the country, and responses must be received by July 12. It intends to introduce the new market structure by mid 1997.

Paradoxically, the exchange has been helped by the existence of something that everybody agrees should be abolished: stamp duty on share transactions. It has provided an opportunity to lay out a set of obligations for "registered principal traders" to boost liquidity in an order-driver market.

"If there is going to be an order-driven book, the questions arise whether or not some firms have to pay stamp duty," said Mr Large. These questions revolve around how to make sure the strong liquidity in London is not imperilled.

As welfare budgets worldwide spiral upwards, radical reforms have kept NHS costs in remission

State system may be the model of fiscal health

By Mark Suzman, Social Services Correspondent

Finance ministers looking for ways to curb alarming rises in their national health budgets might do well to look at Britain's venerable National Health Service. The state-run service stands out as an enduring bastion of fiscal stability in an era when ageing populations combined with the rapidly rising awareness and availability of exotic treatments threaten the national budgets of most industrialised countries.

In 1992, Britain spent just 7.1 per cent of its gross domestic product on combined private and public health compared with 8.7 per cent in Germany, 9.4 per cent in France and 14 per cent in the US. While Britain's spending on health is rising, it has consistently done so more slowly than in most countries.

The British system is cheap and effective by international standards. On all broad health indicators such as life expectancy and infant mortality rates, Britain performs at least as well as leading developed countries and better than most.

Part of the key to this success story is nothing more complicated than public affection. The NHS was launched by a Labour government in 1948 in an outburst of post-war egalitarian sentiment. The idea was that the best healthcare would be publicly funded, available to all and delivered free at the point of use. The NHS was funded out of general tax revenue, with the money being funnelled directly to health authorities and from there to hospitals and doctors on the basis of need.

Over the subsequent four decades, it gradually became apparent, as it has in other countries, that this was an extremely difficult promise to deliver. But the basic popularity of the system meant that successive governments had no choice but to keep it going. Finally, in 1991 the Thatcher government introduced a radical reform of the management of the system that seems to be succeeding in controlling costs and improving service.

The original NHS was a cumbersome, centrally organised system totally lacking in incentives for the performers, but one which kept a lid on what turned out to be some of the main areas of cost escalation in other countries. For example, British doctors were paid flat contracts based loosely on patient capitation while most other countries have tended to use fee-for-service methods of payment.

That meant that British doctors had no interest in prescribing unnecessary treatments even if the patient wanted them. Similarly, the general practitioner acted as a "gatekeeper" for people requiring specialist treatment, further helping reduce the use of more expensive consultants.

The system supported excellence in dealing with emergencies and sophisticated surgery, but had a less than stellar record in coping with non-essential treatments. Costs were broadly contained despite new technologies and growing competition for government funds from areas such as housing and education. But they were contained only at the expense of implicit rationing. By the end of the 1970s, waiting lists for many minor treatments lasted for more than two years (by which time many of those on the lists had died).

The public became offended by the inevitable inequities of some of the rationing, such as, for example, kidney dialysis machines. Discontent was exacerbated by the increasingly run-down state of many NHS facilities, as capital expenditure rarely proved sufficient to provide necessary repairs to hospitals, many of which dated from Victorian times.

By the second half of the 1970s, a growing proportion of the population had resorted to subscribing for private care as the only way of obtaining reasonable service for minor afflictions. The number continued to increase rapidly through the 1980s, with nearly 10 per cent taking out some private cover by the end of the decade. An OECD report observed that the "command and control system of the NHS lacked flexibility, incentives for efficiency, financial information (and hence accountability) and choice of providers for secondary care".

In 1991, the Conservative government introduced radical market-oriented reforms which sought to address these problems without sacrificing the founding principles of the NHS. The basic idea was to end the old, centrally controlled system that oversaw all aspects of health provision by creating an internal market in medical services. The hope was that this would spur innovation and improve services without a substantial infusion of extra state cash.

On one side would be "purchasers": health authorities and, increasingly, family doctors given control over their own budgets and called fundholders. On the other side would be "providers": mainly acute hospitals, which were to become autonomous trusts.

The "purchasers" would act on behalf of their patients to allocate funds where treatment was most successful, thereby introducing an element of competition between "providers". Hospitals, which before had freely spent (and overspent) their annual funding allocations, were set efficiency targets and required to make an annual return on their assets. To run the whole system, meanwhile, a new breed of professional managers was trained and recruited.

Five years on, the country has not been able to decide whether the controversial changes have been a success. "The biggest problem is a lack of proper data and analysis," says Professor Nicholas Mays, director of research at the King's Fund, an independent health policy think tank. "It really will take at least another five years before we can assess matters properly."

Nevertheless, some evaluations are possible. Perhaps most important, while remaining one of the world's cheapest health systems, the NHS has made significant improvements in performance. By the end of last March, for example, the number of people waiting more than 12 months for an appointment at a hospital had fallen below 5,000, in spite of a rise in the number of patients treated, compared with 200,000 five years ago.

However, critics say that this is still not good enough given patient need, and the opposition Labour party has charged that these high-profile successes have come at the expense of growing problems in other areas, such as bed and staff shortages.

Even some supporters of the changes feel improvements have not come as quickly as they should. "There is no doubt that the reforms have led to efficiency improvements, but these have not been as substantial as those made by other service industries over the last 10 years," says Mr Kingsley Manning, director of Newchurch & Co, a consulting group.

While they may disagree on the impact of the changes, however, nearly all observers agree that the NHS, like health systems everywhere, still faces enormous challenges.

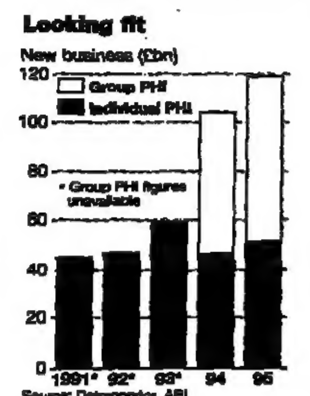
A recent report by the King's Fund, for example, says that a national hospital plan is needed to manage "inevitable" closures of acute hospitals, but charges that the NHS lacks the strategic capacity to plan for it.

But although it may lack such skills, there is a widespread belief that the 'new' NHS at least has the capacity to develop them. "Perhaps the most valuable outcome of the reforms has been the fact that they have made everyone involved in the health service question processes and assumptions," says Mr Manning. "It has become a dynamic organisation."

According to Mr Alan Langlands, the NHS chief executive, that should also mean that there will be further improvements. "Our objectives are not just greater effectiveness, but responsiveness and equity," he says.

While the NHS's success in meeting the latter two goals may not be fully appreciated by those left on the waiting lists or by the still growing number of private patients, its record on the former is one that remains the envy of cash-strapped governments everywhere.

Looking fit



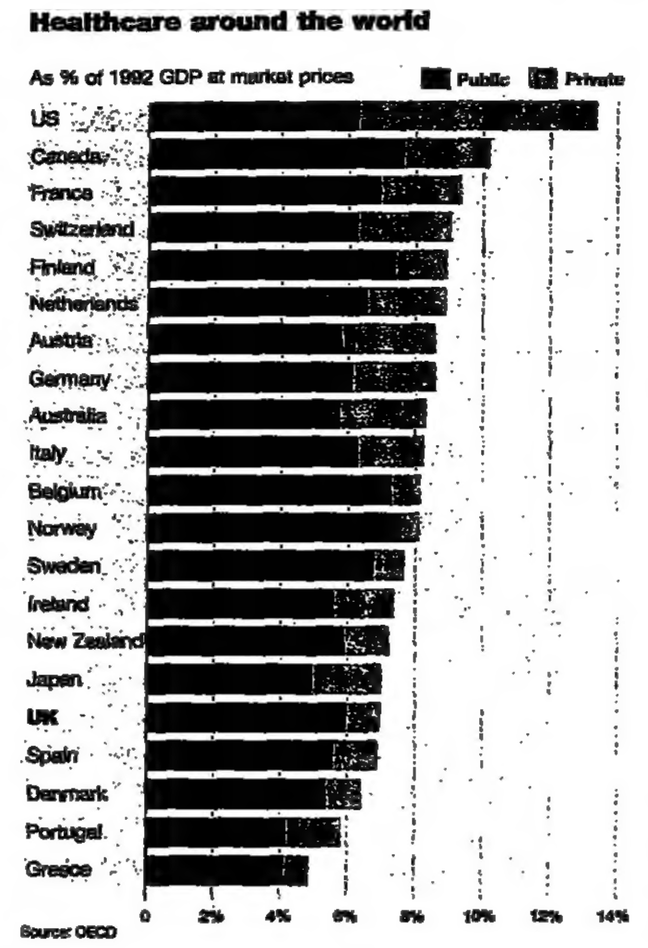
Source: Datamonitor, ABI

The private health insurance market in Britain has seen steady but modest growth over the past few years largely on the back of group policies, says Datamonitor. It adds that the private health insurance market has grown at an average of 3.7 per cent over the past five years.

The market now covers about 12 per cent of the population and new business brings in £120m ($182m) a year. But most of the growth has been in group sales – policies offered by employers, says Datamonitor. Sales of individual health policies dropped slightly between 1991 and 1995. The report attributes the static personal market to a lack of public awareness and a belief that most policies are too expensive.

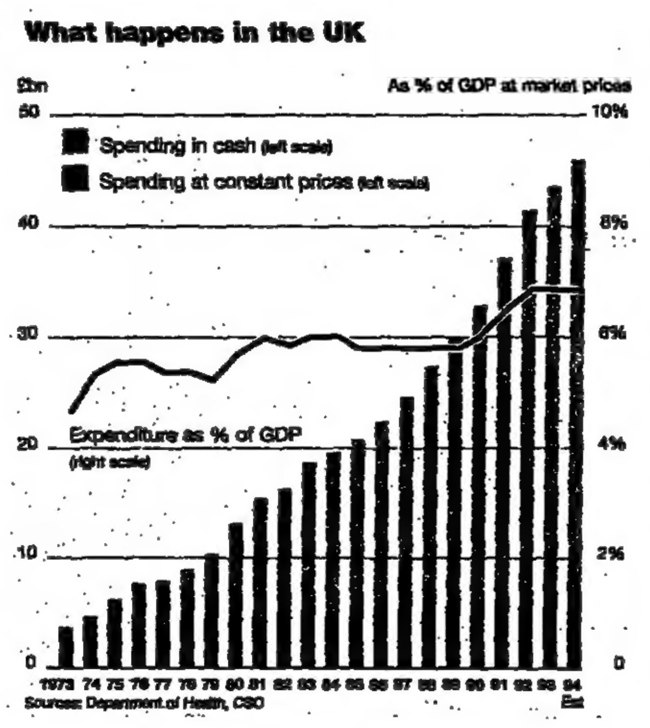
Datamonitor predicts that "moderate" growth should resume in individual policies over the next few years. It says that will be stimulated by government cuts in state injury benefits combined with new tax incentives and lower premiums due to an increasingly competitive market. Datamonitor also concludes that the group market should continue expanding, although slightly more slowly.

Healthcare around the world



Source: OECD

What happens in the UK



Sources: Department of Health, CSO

UK NEWS DIGEST

Regulator warns on water leaks

Ofwat, the water industry regulator, yesterday set companies a one-year deadline to bring down leakage rates or face mandatory targets. The watchdog also called for compensation packages of £10 ($15.20) a day for homes and £50 a day for businesses where the water supply is cut off during a drought.

The warning by Mr Ian Byatt, the director-general of Ofwat, follows its findings that most of the big water and sewerage companies have failed to make progress in reducing leaks which last summer averaged a quarter of supplies. A third of customers faced hosepipe bans.

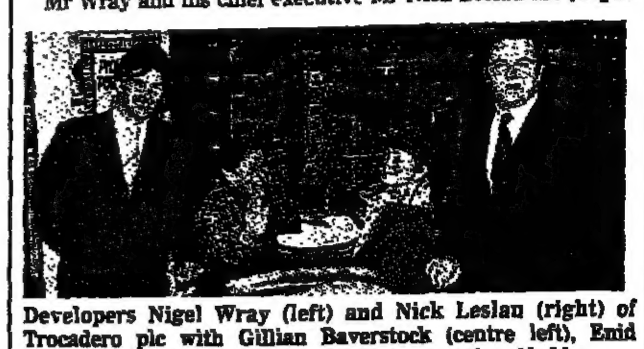
Ofwat said five years after the industry's privatisation in 1989, the leakage of three companies – Yorkshire Water, Severn Trent, and Thames Water – had actually increased. Only three companies – Anglian, North West, and Southern – had met their own internal targets for curbing leaks.

Leyla Boulton, Environment Correspondent

Children's radio channel planned

Mr Nigel Wray, the multimillionaire behind the Trocadero leisure centre and the owner of the rights to Noddy and all characters devised by the children's author, Enid Blyton, plans to apply for a licence to run commercial radio for children in London.

Mr Wray and his chief executive Mr Nick Leslau are preparing an application for the latest FM licence to be offered in London by the Radio Authority. Applications have to be in by July and the winner should be announced in August.



Developers Nigel Wray (left) and Nick Leslau (right) of Trocadero plc with Gillian Baverstock (centre left), Enid Blyton's daughter, and her most famous creation, Noddy

The Trocadero radio plan would be aimed at two to 12-year-olds who almost make up a lost generation for radio.Major toy manufacturers are understood to be very interested in the possibility of a kids' radio station which would broadcast music but also offer a wide range of programming.

In the US children's commercial radio has already proved viable. *Raymond Snoddy, London*

$152m boost to film production

Channel 4, Britain's smaller commercial terrestrial television network, said yesterday it was planning to spend up to £100m ($152m) over the next four years on British feature films. The money, when added to additional co-production finance from other sources, could produce 80 new British films over the period. Around £7m would also be available for film development.

Channel 4, which recently had a film success at Cannes when Mike Leigh's Secrets and Lies won the Palme d'Or, will spend £18m on Film on Four this year rising to £22m in 1997, £28m in 1998 and £32m in 1999. Last year Channel 4's Film on Four budget was £16m and the channel promised to double its spending on British programmes if funding formula payments to ITV were ended. In March the government set out its plans to reduce drastically the amount of money paid by Channel 4 to the ITV companies. *Raymond Snoddy, London*

Government sheds staff

Numbers of government officials are continuing to fall. At April 1, the government machine employed 494,290 permanent staff, the lowest number since the second world war and one-third down on the 735,430 employed in 1979. The fall is less stark if industrial staff – a large proportion of whom have simply been shifted to the private sector – are excluded. This number of non-industrial staff has fallen by 20 per cent since 1979.

The top ranks of officials have been particularly hard hit through senior management reviews carried out in the last 18 months. Numbers in the most senior Whitehall grades have fallen by more than a fifth – in some departments by nearly one-third – over the last year alone. *Andrew Adonis, London*

Audit criticises Turkish contract

A £66.8m ($101.53m) government-backed contract awarded to Nottingham-based TecQuipment involved potential conflicts of interest and other "irregularities" according to a critical National Audit Office report. The watchdog criticises the UK's Department of Trade and Industry and its Overseas Development Administration over the handling of the contract to supply educational equipment to Turkish universities.

David Wighton, Westminster

Exchange merger agreed

The London International Financial Futures and Options Exchange (Liffe) yesterday approved changes in its articles of association which will allow its merger with the London Commodity Exchange to go ahead. The merger, linking Europe's biggest financial and agricultural futures exchanges, was originally agreed last year. *Richard Lapper, London*

Minister scorns demand from EU for further reduction in fishing fleet

By James Harding and James Blitz at Westminster

The UK government yesterday took a firm stand against Brussels, signalling a refusal to co-operate with demands to reduce the size of the trawler fleet and a commitment to disrupting EU business until the beef crisis is resolved.

Despite the private initiative between the European Commission and UK representatives to agree a framework for lifting the ban, British ministers stubbornly defended non co-operation and criticised EU commissioners imposing new demands on the UK fishing fleet.

Mr Tony Baldry, agriculture and fisheries minister, said the UK would not consider obeying rules to cut fishing fleets across Europe until the EU tackled the issue of "quota hopping", which enables Spanish fishermen to catch fish using UK quota.

"We are not prepared to contemplate any further reductions in the UK fishing fleet until the EC sorts out the issue of quota-hoppers," he said.

He was particularly critical of Ms Emma Bonino, EU Fisheries Commissioner, who is pressing for the 40 per cent cut. "There will be very real anger today in the fishing community as to what Madame Bonino has proposed, and the way she did it," he said. "UK fishermen who are working hard, often in hazardous conditions, to earn a living, will be very angry to have been described yesterday by Madame Bonino as 'bad children'. And who does she praise as being the good boys in all of this but the Spanish?"

Mr John Redwood, last summer's failed challenger for the leadership of the governing Conservative party and the champion of the Eurosceptic right, built on the indignation over the fisheries initiative to call for a transfer of powers back to Westminster. He suggested that, "in extremis", the government should limit the power of the European Court by asserting the supremacy of acts of parliament. The UK should also reinstate a 200-mile fishing limit around UK shores.

However, such Eurosceptic proposals were the target of a scarcely veiled attack from Mr Douglas Hurd, the former foreign secretary, who yesterday leapt to the defence of the European Court of Justice and the Commission.

"In the field of the single market, the Commission and the court are the allies of those who want the playing field to be level," he said. "We should help them to move further and faster."

Other pro-European Conservatives were directly critical of Mr John Major's policy of non co-operation in the EU. One junior minister warned that "as more and more sensible European measures are blocked, measures that the UK has been pressing for, people will see that this policy is absurd."

Meanwhile, the Commission said yesterday it had received a report from the UK on the baby milk scare but declined to say what information it contained or whether it would be published.

UK baby milk manufacturers warned the Commission that publication of the levels of phthalates found by government scientists in specific brands of milk would trigger panic among parents.

Labour party deplores 'xenophobia'

The opposition Labour party yesterday urged the government to modify its policy of non co-operation with the European Union, James Blitz writes at Westminster. The party hinted that it might withdraw support for the action if certain "criteria" were not fulfilled. Mr Robin Cook, the party's shadow foreign secretary, urged the government to reject "the language of jingoism and xenophobia" for fear of inflaming tensions at next week's European football championship.

"I particularly want the foreign secretary to join me in deploring descriptions of the beef dispute as a war," he said. The Foreign Office should reject "talk of war with our neighbours."

Commission in tough balancing act

Some Brussels decisions reflect a fear of being accused of bias, writes **Caroline Southey**

The outburst from Mr Jacques Santer, the European Union Commission president, against Britain earlier this week had as much to do with saving the Commission's credibility as giving Britain a bloody nose over its policy of non co-operation.

The Commission's role as mediator between Britain and the other member states during the BSE crisis has left it open to accusations of bias towards the UK government. "The Commission represents all 15 member states; it does not want to be seen to be leaning too closely towards the UK," said an EU diplomat.

"There is not going to be a solution to this crisis unless the Commission is seen to be objective," said one EU official. Another added that Mr Franz Fischler, EU Commissioner for agriculture, was "terrified of being labelled pro-British. His hopes of convincing the other 14 member states to back any plan would be zero if this happened."

Mr Santer appears to have taken the initiative to publicise the contents of what are normally secret debates partly to head off such criticism. His move took at least some commissioners by surprise. "The text released to journalists was not agreed by all the commissioners; some were surprised when they saw the written statement," said an EU official.

Among them were the two British commissioners, Sir Leon Brittan and Mr Neil Kinnock, and the Irish commissioner, Mr Padraig Flynn, all of whom argued that the commission should be doing everything possible to "de-escalate" the crisis, according to one EU official.

But Sir Leon's suggestion during the Commission meeting that Brussels propose a timetable for lifting the ban was firmly rejected. Mr Fischler, in particular, argued forcefully that the initiative had to come from Britain.

"The danger is that the Commission tables something that is not only not acceptable to the other member states, but is rejected by Britain," said one of the EU officials, adding that Mr Fischler had already suggested to the British government that one way of achieving results on the ban was to propose lifting it on a regional basis, starting with northern Ireland and Scotland.

"The UK government has already turned down the idea. Its fear is that it would loose the political momentum to have the whole ban lifted leaving England marginalised," said the EU diplomat.

Mr Santer also appeared to be bracing the Commission for an increase in tension between Britain and the other 14 member states next week, which is packed with events linked to the BSE crisis.

The first of these will be a vote by agriculture ministers on whether to end the ban on British beef by-products. The expectation is that the ministers will vote against the proposal, at which point the Commission will have to take responsibility for implementing the plan.

Tensions will also rise as Britain's non co-operation policy claims casualties at three council meetings – on Monday economic and finance ministers as well as social affairs ministers meet in Luxembourg followed by a meeting of justice and home affairs ministers on Tuesday. The fall-out from these events will coincide with a meeting between Mr Santer and Mr Fischler with Mr Rifkind and Mr Douglas Hogg, the British agriculture minister, in Brussels on Tuesday.

"The Commission had to protect itself against the brickbats it faces next week," said the EU diplomat, adding that "his comments are understandable coming from a body that will probably have to take the decision to lift the ban". The diplomat added that the president was "merely reflecting the mood in most other member states". The fear in the Commission is that growing anger at Britain's tactics in other European capitals could lead member states to take a harder line on the BSE issue which in turn could lead to an escalation of the crisis.

"Britain's tactics mean we cannot work properly any more. This could force other member states to stiffen their position. No government likes to be seen to be acting under threat or to face the accusation that it is placing Britain's interests ahead of public health fears," said Mrs Emma Bonino, Commissioner for fisheries and consumer affairs.

International think-tank endorses many of government's policies

Peak exports narrow trade gap by a third

By Gillian Tett and Graham Bowley

The government received a welcome economic boost yesterday after data showed that Britain's trade gap shrank by more than a third in March and an international think-tank broadly endorsed government policies.

The UK Office for National Statistics said the country's exports rose to record levels helped by a sharp improvement in trade with other European countries. Its comments suggested that companies may be successfully defying the slowdown in important European Union export markets.

The better trade performance was reinforced by the office's decision to revise upwards past export growth, which will now have positive knock-on effects for its measures of industrial production and broader economic growth.

Meanwhile, the Organisation for Economic Co-operation and Development gave a largely favourable forecast for the UK economy in its latest annual report.

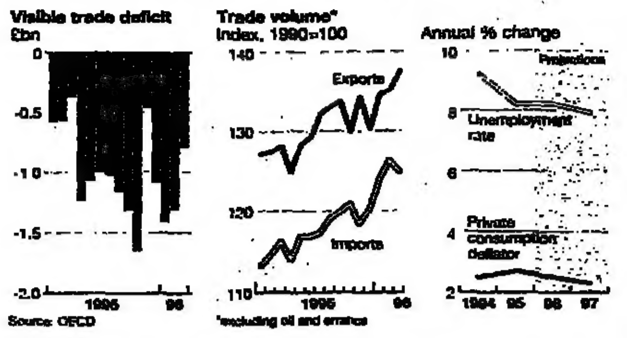
The influential Paris-based body said it believed the UK would soon rebound from the recent slowdown amid a "favourable" inflation outlook.

However, it thinks that growth will be only 2 per cent this year – well below the government's forecast of 3 per cent. Consequently, the UK Treasury's plans to reduce government borrowing through spending cuts seem over-ambitious, it warns.

Some Treasury officials expect the chancellor of the exchequer's own growth forecast to be revised down this summer.

However, the government, which advises the OECD in its reports, insisted that the fundamentals were still healthy. The OECD's optimism stems largely from the UK's recent labour market reforms and competition policy.

Economic forecasts



Source: OECD
*excluding oil and erratics

The OECD thinks these have made the UK one of the most flexible European economies. It projects falling unemployment in the next two years – in marked contrast to some EU countries such as Germany.

While the OECD used to think that inflation would be triggered whenever unemployment fell below 10 per cent, it now believes that a rate below 7 per cent would be safe.

Consequently, it thinks that the government could afford to let the economy grow much faster than 2.5 per cent in the next few years. The Treasury, in contrast, fears that inflation would be triggered if the economy grew much faster than 2.25 per cent.

The OECD said that if growth slowed further in Europe, more cuts in interest rates might be appropriate. However, it thought that was unlikely at present.

Meanwhile, official figures yesterday showed that the UK trade deficit with the EU fell to a seasonally adjusted £0.8bn ($1.21bn) in March from £1.3bn in February, although the non-EU balance deteriorated in April, widening to £0.9bn from £0.7bn in March.

The ONS said its estimate of the long-term trend in the trade deficit was now broadly flat. Exports rose 3.3 per cent in March to a record £13.8bn, while imports fell 0.5 per cent to £14.6bn.

Half of the exports rise was due to higher sales of precious stones abroad. However, export volumes excluding oil and erratic items rose 1.8 per cent, while import volumes fell 1.1 per cent.

Adams edges towards compromise

By John Kampfner and John Murray Brown in Belfast

It was the kind of day Mr Gerry Adams relishes. Tracked by camera crews from across the world as he cast his vote in Northern Ireland's elections, he warmed to the opportunity to expound more thoughtfully on the way ahead for the "statelet" in which he happens to live.

We talked for an hour over a cup of tea at the Irish language centre on the Falls Road in west Belfast where Mr Adams feels at home. The only subject on which he professed no opinion was the likelihood that the IRA – the terrorist group over which he claims no influence yet whose political aspirations he represents – would call a ceasefire in the next few days. If the IRA does not fulfil that condition, Sinn Fein will not be allowed into the negotiations.

Listening to Mr Adams, it seems hard to conceive that he will not be let through the gates of Belfast's Castle Buildings – the former seat of the pro-British administration in Northern Ireland before the region was ruled from Westminster – along with delegations from nine other parties to be drawn from the new forum. He has thought through the negotiating process in considerable detail and is strikingly optimistic about the prospects – if his party is admitted. "I am absolutely confident that even though it will be problematic, difficult, boring, tedious and convoluted we will resolve all the issues."

Many of his utterances are still couched in republican rhetoric. He blames the "Brits" for "frittering away" the first ceasefire. He cannot resist answering questions with a brief history lesson on "the republican struggle".

Yet when the words are stripped down, substantive shifts are detectable. Mr Adams said he wrote earlier this month to Mr John Major welcoming the "positive tone" of assurances by the British prime minister that paramilitary decommissioning would not be allowed to block progress in the political talks.

If the British and Irish governments could finally agree on an agenda for the negotiations next week, Mr Adams said, Sinn Féin would be satisfied. When asked about the IRA, he suddenly became coy. "I refuse to speculate about what will happen with the IRA." He added, however: "Having said that, of course, we have to be about the business of trying to create the conditions that people engaged in armed actions will have the confidence to stop those armed actions."

Mr Adams suggested that the IRA might need one more assurance from Mr Major that all he wanted was a repetition of the original declaration of "cessation of hostilities" in August 1994 – as opposed to a surrender of weapons. In addition, Sinn Féin wanted a time frame for the talks. "There needs to be an agreed time frame so that we don't have talks about talks about talks in perpetuity," he said.

As to the possible role of former US senator, Mr George Mitchell as the co-ordinator of the talks, Mr Adams said whichever international mediator was chosen, they could not be asked to perform a "minimal, neutered" function. At the start of the talks, the parties will be urged to pledge allegiance to the six principles of non-violence he set out by Mr Mitchell in January as an alternative means of demonstrating commitment to democracy. Mr Adams admitted his recent statement endorsing the principles had been difficult to sell to the republican movement.

He predicted that once the protagonists sat around a table, they would learn to get on with each other.

Pressed on his own bottom line for the negotiations, Mr Adams gave the impression of a man resigned to the necessity of compromise. A month ago, Mr John Bruton, the Irish prime minister, said that the governments would suggest to the parties that the outlines of any agreement lay in the joint framework documents agreed by himself and Mr Major in February 1995. These open the way for strong cross-border links and for power sharing between Protestants and Roman Catholics in the North.

Mr Adams went as close as he has ever done to conceding the principle of consent for the people of Northern Ireland alone. He said: "We accept clearly the framework documents as the broad parameter of the discussions, even though we would wish to put the Union . . . on the agenda, knowing that it will be opposed by others."

Sinn Féin was prepared to discuss "demilitarisation, prisoners, guns and oppressive legislation" together with other constitutional issues. "The order they're put in is a matter for the party managers," Mr Adams explained.

"We're now seeking to bring an end to the conflict – not an end to the republican struggle, which can go on on a new plane. If there is equality of treatment, if there are broad democratic rights, if there is an understanding between the two governments which can meet the consent of all the parties, then we have eased ourselves out of the potential of another 25 years of conflict. We will continue to argue for the end of British rule, and make alliances," Mr Adams said.

OECD praises flexibility in labour market

By Gillian Tett, Economics Correspondent

Recent structural reforms have turned the UK into one of the most competitive and flexible economies in Europe, the Organisation for Economic Co-operation and Development said yesterday.

Changes to the labour market have greatly increased the country's ability to reduce unemployment, it argues.

Meanwhile, competition policy has also proved effective, with the privatisation of utilities such as telecommunications leading to better deals for consumers.

These twin themes, contained in the OECD's annual report on the UK economy, were seized upon with delight by the UK government. Both Treasury and trade officials hope to use the report for extolling the UK's virtues to the rest of the world.

However, the conclusions were regarded more cynically by some observers – not least because government officials play an advisory role in OECD reports.

While figures such as Sir Bryan Carsberg, the former director-general of fair trading, have recently called for radical reforms to competition policy, the OECD report generally supports the status quo and does not call for any unified competition body. It calls instead for the existing Office of Fair Trading to have greater powers – an idea already advanced by the government.

The OECD withholds judgment on the energy sector, which has recently prompted a furore following a government decision to block a merger in the electricity sector. However, it cited telecommunications and gas as areas where consumers have benefited from privatisation.

And though it notes that retailing and business services may face monopoly problems in the future, the report concludes that "in general United Kingdom markets are open and competitive". The OECD also welcomes the UK's struggle to create labour flexibility.

Indeed, the only problems identified are the poor long-term unemployment record and markedly widened income differentials.

The OECD concludes that the best way to solve both problems would be to create more jobs. And it notes that - in contrast to many European countries - there are relatively few barriers to job creation.

However, it says some micro-economic reforms could help. Changing unemployment pay is unlikely to have much impact because it now provides little disincentive to work. But the Family Credit system of state benefits should be changed further to keep families out of a "poverty trap" which discourages them from working harder.

Britain has been exporting and importing more goods than previously thought as the prices of these goods have been growing more slowly than forecast, the Office for National Statistics said yesterday.

A new method of collecting data based on prices quoted directly by companies has shown that both import and export prices have been growing less slowly than earlier estimates suggested.

Earlier methods used indirect trade-based indicators to calculate prices. Exports, excluding oil and erratic items, are now estimated to have risen 8.7 per cent last year compared with 7.7 per cent on previous estimates. Imports growth is also stronger.

Taste of success

Edward Luce reports on a rapidly expanding fast-food chain that has taken the Philippines by storm

Building on its achievements at home, Jollibee plans to open outlets abroad at the rate of 30-50 a year over the next few years

An American fast-food executive scanning the Asian horizon would probably home in on the Philippines as fertile territory for an operational launch. The former American colony is not known for its haute cuisine. Nor, until recently, has the Philippines been noted for its ability to stave off multinational competition in any industry on its home patch. It would come as quite a surprise, therefore, to learn that the Philippines is home to Asia's most rapidly expanding fast-food chain.

Jollibee Foods, set up in 1978 by five Chinese-Filipino brothers, the Tan Caktiong family, appears to be on a roll. With 55 per cent of the country's fast-food market and 75 per cent of its hamburger market, the Philippines' homegrown McDonald's has a larger market share than all its American counterparts put together. And this despite the fact that McDonald's, Wendy's and Kentucky Fried Chicken have been marketing aggressively in the Philippines for years.

The impending liberalisation of the Philippines retail sector – under which foreign investors will be able for the first time to buy Jollibee shares – looks set to boost the company's share price and boost its strategy of expanding abroad at the rate of 30 to 50 a year.

"By about 1998 the number of outlets overseas will have overtaken the number at home," says Tony Kitchener, an Australian recently appointed to head Jollibee's international expansion. "At the moment we have outlets in 13 countries mainly in south east Asia and in the Arab Gulf states. By next year we will have added Hong Kong, China, Los Angeles and Rome to that list."

The fast-food chain, which targets low to middle-income consumers, children's parties and people with a sweet tooth, attributes its Philippine success to a superior knowledge of the local palate. Apart from its "Asian-style" hamburgers – the recipe is a trade secret – the chain offers spaghetti fiesta (a Chinese-type mixed chow), salads, mango pie and other dishes popular with its 68m countrymen. Because the initial overseas expansion was targeted at Filipinos abroad, notably in Bahrain, Indonesia, Malaysia and Brunei – where Jollibee has 80 per cent of the fast-food market – the formula has also worked well outside the Philippines.

Much to everyone's surprise, however, the chain has also proved a hit with non-Filipinos in other markets. "Exit polls" at Jollibee's Kuala Lumpur and Jakarta outlets show that a majority of customers are non-Filipino. In Guam, where a special hamburger, the Heavyweight Champ, was devised to suit local appetites, Jollibee has captured 90 per cent of the market.

"Part of the secret of Jollibee's success is that it offers different dishes to different customers depending on where it is," says Gina Manzano, an analyst at Asia Equity Securities in Manila.

In Vietnam, where Jollibee will open the country's first foreign fast-food outlet later this year, Jollibee's local partner is conducting market research into local quick snack tastes. The result is expected to be similar to the rice-based meat dish, or Nasi Goreng, on offer in Indonesia. In Malaysia and the Gulf, chicken masala appears to have done the trick.

"We vary our menu but the basic hamburger, which was dreamt up by the Tan family, remains the same wherever you go," says Raffy dela Rosa, head of finance. "Because the meat is cooked with the spices – rather than putting them on top after it has been cooked – it seems to appeal to Asian taste." This discovery – and the fact that McDonald's recently deferred to Jollibee's success when it launched McDough, a Filipino-style hamburger, in its Manila outlets – has given a new edge to Jollibee's regional ambitions.

Following the inauguration of branches in China, Hong Kong and Vietnam over the next 24 months, Jollibee plans to launch an advertising blitz on Hong Kong's Star TV to promote its burgers as the "Asian" fast-food. The campaign would be aimed at low-income Asians.

"We want to wait until we have got enough branches in place before we advertise Jollibee Asia-wide," says Kitchener. "By the end of this year we will still only have 30 overseas branches so it will take a year or two more and a lot of hard work before we can truly call ourselves Asian."

The company's rapid accretion across the continent will cost it almost nothing, however. By entering into joint ventures in new markets and leasing the franchise to its partners, Jollibee can live off royalties and minimise capital expenditure costs. Under the standard contract, Jollibee has the right to acquire majority ownership in overseas chains at a later date.

Kitchener, who points out that the franchise strategy has kept Jollibee's overseas capital spending to less than 5 per cent of total costs, says Jollibee prefers to franchise in markets it does not know well such as Vietnam and the UAE. The contract, which allows Jollibee to dictate the pace of expansion and step in directly after 10 years, enables the company to go multinational at almost no cost.

"It's what is called the OPM strategy – other people's money," says Kitchener. "Another benefit is that the local franchisee knows local laws, conditions, tastes and people much better and is therefore better placed to put up the risk capital. What we provide is the name and the management experience," he adds.

With an eye on the failure of Jollibee's first international outlet in Taiwan in 1988 – located on a "pedestrian unfriendly" street according to the company autopsy – Jollibee believes the franchise option is a much lower-risk way of boosting its international exposure. In markets where there is a clear chance of success, such as Hong Kong where an outlet will be opened in August in the central district or California where Filipinos form the second largest Asian group, Jollibee puts in direct equity with a local joint venture partner.

Meanwhile, Jollibee is pushing ahead with provincial expansion in the Philippines. About 70 per cent of its 184 Philippine branches – compared with McDonald's 84 outlets – are in Manila. The company, which boosted net profits by 25 per cent last year to 537m pesos (£13.5m), will also accelerate the expansion of Greenwich, a local pizza chain acquired by Jollibee in 1993, in the home market.

Campaigns sans frontières

Brussels would like to remove obstacles to cross-border advertising, writes **Diane Summers**

Any toy or confectionery maker wanting to run a pan-European TV advertising campaign faces a bewildering battery of rules and regulations across individual member states.

Sweden, for example, forbids all advertising aimed at children under 10: Greece bans TV toy advertising between 7am and 10pm: some countries require ads for sweets to carry a toothbrush symbol and others have rules intended to curb advertisers from encouraging children to exercise "pester power".

The same maze of national rules exists when it comes to promoting alcohol, tobacco, pharmaceuticals, and financial services. Added to these are diverse regulations on how much of the human body can be revealed, whether prices can be discounted for special offers, and the use of free gifts in sales promotions.

All these differing rules add up to a significant barrier to cross-border trade and make it difficult for consumers to get redress when things go wrong, the European Commission argues in a discussion green paper, recently published.* The paper covers "commercial communications" – in other words, all forms of advertising, direct marketing, sponsorship, sales promotions and public relations.

The commission details the savings that could be made if advertisers could benefit from economies of scale within the EU by standardising campaigns, as far as cultural differences allow. And it points to developments in new media, such as the Internet, and the advent of what it terms the "information society", which have the potential to complicate the picture still further.

The current position is that, under the Treaty of Rome, once a company providing services has satisfied the requirements of its own national law, no other EU state is supposed to impose further restrictions unless certain specific conditions are met.

In theory, there must be overriding reasons relating to the public interest for imposing additional national rules, and these rules must be "proportionate" to the public interest objectives, and therefore not go further than is needed to achieve these desired objectives.

To test the validity of current national restrictions on commercial communications through the courts takes several years for each case and there are currently up to 20 complaints waiting to be heard.

The green paper proposes that a new body be set up, as an alternative to court action, chaired by the commission and made up of representatives of each member state. It would assess whether national rules meet the public interest and proportionality tests.

What the power of this group would be, and the framework within which it would operate, should become clearer after the consultation process which finishes at the end of October. As well as the new body, the commission is proposing a new central contact, inquiry and information point on commercial communications.

States will be forced, in effect, 'to take a lie detector test when they pretend that their ad bans protect the interests of consumers'

The Advertising Association in the UK, the umbrella group representing advertisers and agencies, has long objected to some national advertising restrictions as thinly-disguised protectionism. It sees the latest proposal as an "utterly committed challenge" by the commission "to those member states who restrict EU trade by cynically banning communications".

Lionel Stanbrook, the association's director of political issues, says states will be forced, in effect, "to take a lie detector test when they pretend that their ad bans protect the interests of consumers". The commission itself takes a less confrontational line, arguing that it is in everybody's interests to keep disputes out of the courts.

Early meetings of the new body would examine national differences in sales promotions and sponsorship regulations – two areas that surveys for the green paper identified as particularly problematic. On sponsorship, for example, the Netherlands was singled out by survey respondents as having particularly restrictive curbs on events sponsorship, while the UK and Denmark were seen to impose strict rules on broadcasting.

Price advertising and discounting is another area likely to get early attention. Measures are so disparate that cross-border campaigns using discounts are all but impossible, said many respondents.

In Germany, cash discounts to consumers are limited to 3 per cent and the advertising of special offers is also restricted. Austria, Belgium and Italy also have strict regimes. In contrast, in Scandinavia, where advertising law is more closely linked to consumer protection rather than unfair competition considerations, price advertising is encouraged – Swedish law, for example, promotes comparative price advertising between traders.

The list of problem areas stretches on, taking in, for example, over-the-counter pharmaceuticals, standards of "taste and decency" and the differing systems of approval needed for investment advertising.

Even if the new body manages to clear up legal difficulties, aspiring pan-European advertisers will still face a wide range of cultural differences in what shocks, amuses and informs effectively. And long may that continue, many would argue.

**Commercial Communications in the Internal Market. Green paper from the European Commission. Tel: (+32-2) 296 01 10. Fax: (+32-2) 295 77 12. E-mail: E5@dg15.cec.be*

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IN BRIEF

Metallgesellschaft sued by former unit

Metallgesellschaft, the German industrial and trading group, has been sued for DM100m ($64.7m) by its former subsidiary BUS Berzelius Umwelt-Service, an environmental services company, in a case which yet again serves as a reminder of its troubled past. Page 20

Mediaset approves float price range
The board of Mediaset, Mr Silvio Berlusconi's media company, approved a wide price range for its planned flotation, which is likely to value the company at L7,000bn ($4.49bn). It is understood that the minimum price will be L6,000 a share and the maximum, L7,200. Page 20

Varity puts off results amid Lucas deal talk
Varity Corporation, the US automotive components group locked in merger talks with Lucas Industries of the UK, has postponed its first-quarter results for the second time, raising expectations that a deal is imminent. Page 21

Hollinger deals put media policy in doubt

For years, Canadians have applauded government policy to restrict foreign ownership of domestic newspapers. The wisdom of that policy is now being questioned in the wake of a series of deals by Hollinger, the publishing group controlled by Mr Conrad Black (left), culminating in one last week which raised its stake in Southam, the biggest daily newspaper chain, from 20.5 per cent to 41 per cent. The spree has catapulted Hollinger to the position of controlling shareholder of more than half Canada's daily papers. Page 21

Yokohama Rubber hit by US problems
Yokohama Rubber, Japan's second-largest supplier of vehicle tyres, posted firm parent results for last year on the strength of stable domestic demand and higher exports, but stumbled on a group basis because of difficulties at its US operation.
Page 22

Emap in talks on regional newspaper sale
Emap, the UK publishing, exhibition and commercial radio group, is believed to be in talks for the possible sale of its regional newspaper interests. If concluded, the deal is likely to raise about £200m ($304m) for the company.
Page 24

Portugal Telecom shares forge ahead
In Lisbon, shares in Portugal Telecom continued to rise ahead of the second stage of its privatisation on June 11. The BVL index added 19.30 to 1,895.69 as PT rose Esc152 to Esc3,851, close to its all-time high of Esc3,875. Estimates suggested that requests for shares in the utility had exceeded supply by a factor of six to one. Page 36

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)			
Falls			
Asko Prf	757	-	20.5
CKAG Colonia Pf	830	-	15
Kali & Salz	232.7	-	8.3
Porsche	860	-	15
Preussag	391	-	12.7
Zanders Feinpp	100	-	10
NEW YORK ($)			
Rises			
Fleetwood Ent	30¾	+	2½
Furon	24¼	+	2¾
Ralcorp	24¾	+	2⅛
Falls			
Excel Comm	31⅞	-	2¾
Isa Intl Svc	11⅛	-	2⅛
Western Digital	24½	-	2½
LONDON (Pence)			
Rises			
Barbour Index	425	+	30
Chesterton	120	+	10
Mid Kent	468	+	33
Recognition Sys	121	+	11
Saltire	177	+	26
Falls			
Abacus Polar	205	-	15
TORONTO (C$)			
Rises			
Fulcrum Tech	49	+	3
Greenstone Res	19.65	+	2.65
Newson Res	15.35	+	2.45
Falls			
Can Sth Pet	8.1	-	0.9
Imax Corp	44	-	4.5
Intl Curator	15.55	-	0.95
PARIS (FFr)			
Rises			
CCF	245.8	+	6.5
Fromageries Bel	5050	+	101
Falls			
Casino	214.6	-	5.2
Fonc Lyonnaise	573	-	17
SGS-Thomson	213.1	-	5.1
Union Immob Fr	420	-	21.7
TOKYO (Yen)			
Rises			
Daishowa Paper	843	+	43
Falls			
M'bishi Plastics	632	-	28
Mitsui Mng	451	-	19
Meisei Electric	750	-	29
Seibu Railway	5710	-	270
Tanabe Seiyaku	780	-	45
HONG KONG (HK$)			
Rises			
China Elegance	2.575	+	0.275
China Res	5.8	+	0.25
Shell Elec Mfg	4.975	+	0.3
Falls			
Playmates Toys	2.05	-	0.1
Siu-Fung	1.59	-	0.15
Tai Ping Carpets	2.9	-	0.125
BANGKOK (Baht)			
Rises			
Saha Pat Intl	71.5	+	6.5
Thai-Asahi Gl	58	+	5
Falls			
Thai Fish	63	-	7
Thai Wire Prod	52	-	5
Trang Sea Food	28	-	3
Univenture	27.5	-	2.75

New York and Toronto prices at 12.30.

Barings helps ING to 42% advance

By David Brown in Amsterdam

ING, the Dutch financial services group, reaped the rewards of its takeover last year of Barings when the once-collapsed UK merchant bank helped it turn in an unexpectedly strong first-quarter financial performance.

The inclusion of Barings and a strong recovery in securities trading helped ING's net profit to advance to Fl 736m ($427m), up 42 per cent from a year earlier.

Disclosure of the result, at least 15 per cent higher than market expectations, pushed the ING share price up Fl 2 to Fl 138.7 on the Amsterdam stock exchange.

ING said "barring unforeseen circumstances" it was confident full-year net earnings would exceed last year's Fl 2.65bn.

The results from Barings, which ING acquired after its failure last year, were consolidated in the ING results for the first time in the first quarter of 1996.

Overall pre-tax income from the banking operations, which now include Barings, nearly doubled from Fl 255m to Fl 490m. Commission income rose 82 per cent to Fl 595m due in part, ING said, to the Barings consolidation. Securities trading moved from a loss of Fl 101m a year ago – – due in part to the Mexican crisis – to a profit of Fl 202m, though foreign exchange trading profits fell to Fl 25m.

ING cautioned that this brisk growth in banking reflected a particularly weak first quarter last year and would not be sustained through the whole of 1996.

Several of the larger German and Swiss banks have also reported much stronger profits from trading operations in the early months of this year. Analysts were particularly encouraged, however, by strong growth in ING's insurance businesses.

Overall pre-tax profit in this sector increased from Fl 482m to Fl 566m, of which Fl 375m was generated in the Netherlands. Although ING called this rise "considerable" in the light of last year's strong showing, it again cautioned that this rate of growth "should not be considered indicative for the rest of the year".

Premium income from the insurance arm advanced from Fl 5.6bn to Fl 6.2bn, of which two-thirds was generated by life assurance. The pre-tax result in life assurance climbed from Fl 245m to Fl 306m, with "sharply higher results" in the Netherlands and Japan. Non-life insurance fell back from Fl 64m to Fl 59m due to losses connected with the severe winter in North America, while income from other general insurance operations advanced from Fl 173m to Fl 201m.

The combined pre-tax result for banking and insurance was fixed at Fl 1.05bn, up 43.6 per cent, despite higher overall costs. ING reported total assets of Fl 424.1bn for the quarter to March, compared with Fl 396.2bn a year ago. Net profit per share was Fl 2.61, up from Fl 1.92.

Dasa looks at 'detour' to evade Dornier sale veto

By Wolfgang Münchau in Frankfurt

Daimler-Benz Aerospace (Dasa) is considering using a complex legal device to bypass a possible veto by minority shareholders, who are threatening to block the sale of Dornier, the regional aircraft maker, to Fairchild Aircraft of the US.

Dasa strategists are thinking about transfering Dornier into a new holding company, in which Fairchild would take a majority stake. Dasa believes the "detour" via a separate holding structure might allow Fairchild to gain control without the consent of minority shareholders.

It said last month it was in negotiations with Fairchild over the sale of a controlling stake in Dornier. Minority shareholders in Dornier, representatives of the the Dornier family, argue that a new management would not necessarily improve the company's chances of long-term survival.

The right to veto was obtained by minority shareholders under a complicated legal contract with Daimler-Benz, which took control of Dornier in the 1980s when it regrouped Germany's aerospace and defence industry into a single commercial entity. Dasa owns 57.5 per cent of Dornier.

The issue is to be settled next Wednesday, when Dasa and the minority shareholders meet. Daimler-Benz has threatened to sue the minority shareholders for at least DM719m ($473m) if the sale is blocked or hindered.

Fairchild operates from San Antonio, Texas. Its product range includes a 19-seater regional aircraft as well as military aircraft. Dornier's best-selling product is the 328, a 30-seater regional aircraft.

Daimler-Benz decided to sell Dornier because of its history of losses. These culminated in a deficit of DM500m in 1995, when Daimler-Benz reported a DM5.7bn loss which has forced it into unprecedented cost-cutting.

As part of this, Germany's largest industrial group has pulled out of Fokker, the Dutch regional aircraft marker, and dismantled AEG, the German industrial group. It has also forced deep job cuts at other parts of Dasa.

Fairchild has agreed to give some limited job and production guarantees, according to DPA, the German news agency.

A possible sale to Fairchild is also favoured by Dornier's works council. Mr Oscar Pauli, its president, said yesterday: "It is our working assumption that the sale [to Fairchild] will proceed as planned. Anything else would be a catastrophe from the view of the employees."

Lex, Page 18

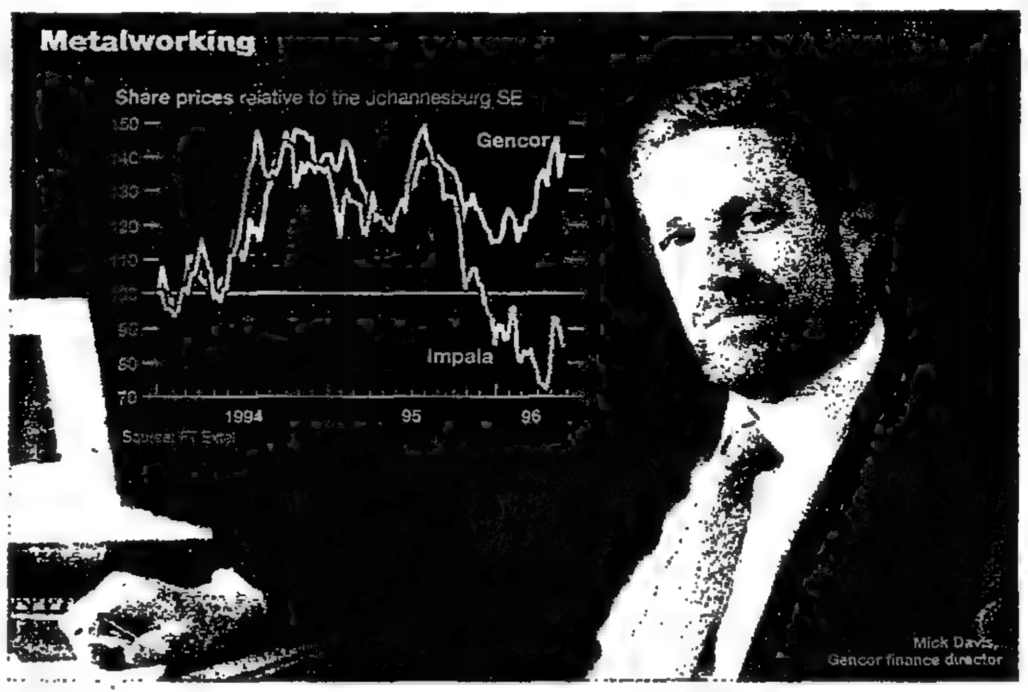
Mick Davis of Gencor explains how it is tackling recent setbacks

Mining group strikes a rich seam of problems

After three years of unparalleled success, when it seemed the new management team at Gencor could do no wrong, the South African mining group's headlong progress appears to have been brought to an abrupt halt.

These are just some of the apparent setbacks it has encountered in the past few months:

- The European Commission refused to allow the proposed merger of Gencor's associate Impala and the platinum mining interests of Lonrho, the UK based conglomerate, to form the world's biggest platinum producer.
- Rival Anglo American Corporation, South Africa's biggest group, acquired a strategic holding in Lonrho and disturbed a long association between Gencor and the UK company.
- The South African government rejected proposals by Richards Bay Minerals, half-owned by Gencor, to mine a mineral sands deposit at Lake St Lucia in Kwa-Zulu-Natal.
- Eramet of France snapped up a commanding interest in Comilog, one of the world's biggest manganese producers, shortly after Gencor's pre-emptive rights over any change of shareholder had expired.
- There seemed to be little progress in plans to bring together Alusaf, Gencor's 41 per cent-owned associate, and Billiton, a wholly-owned subsidiary, to form the world's fifth largest integrated aluminium group.



Mick Davis, Gencor finance director

Mr Mick Davis, Gencor's finance director, says none of this has deflected the group from its strategic course. He admits, however, the Impala decision was a serious setback.

"The merger will send us leaping down the [platinum production] cost curve. It will form a low cost competitor for Rusplats [Rustenburg, at present the biggest platinum group]. If it does not go ahead, there can be only gradual improvements at Impala," he says. "But the deal is not dead. The EC pronouncement does not end it."

But after waiting six months while the EC inquiry took place, Gencor is reluctant to appeal to the European Court as that might take another two years.

"It would be better if we could find another – and a quicker – route [than a court appeal]. But the resolve at Impala and Gencor to get this deal done has not lessened."

As for the association with Lonrho, he points out a merger with the UK group was an option for Gencor when it was planning to become an international mining group. This was achieved instead via the $1.1bn acquisition of Billiton from Shell. "We did not want to merge with a conglomerate that has, among other things, a hotels business with interesting partners."

He suggests that, although Anglo appears to have a grip on Lonrho, so that it can pick up the UK group's mining interests when they are demerged, this is not the case. Gencor has pre-emptive rights to all or any of the Lonrho platinum business – an arrangement made so long ago that, according to Mr Davis, the European authorities would not be able to intervene.

Gencor would not be permitted to buy Duiker, Lonrho's South African coal business, as Gencor is already so dominant in that market. That leaves Ashanti of Ghana, the gold mining jewel among Lonrho's assets and Anglo's principal target.

Mr Davis points out that Lonrho owns only 37 per cent of Ashanti and it is far from clear "just how much a part of Lonrho Ashanti really is". It was therefore not difficult for Gencor to turn down the 6 per cent of Lonrho which was snapped up by Anglo. "Do you buy 6 per cent of a conglomerate on the offchance that you might get Ashanti?"

Similarly, Mr Davis says there were no regrets about Eramet's move into Comilog. Gencor was sure to have run into antitrust problems if it tried to build on its 15 per cent of Comilog, based in Gabon, because Gencor already had such a dominant position in the global manganese business. "But we did want an owner [of Comilog] that could offer good financial management as well as good operational management and Eramet fits that bill."

As for the St Lucia mineral sands project, Mr Davis says it would have been advantageous for Richards Bay Minerals to have mined that ore body. The South African government decided against allowing mining in an area teeming with wildlife. "We fully understood the government's reasoning." RBM has been promised alternative lease rights by the government.

Gencor recently reorganised most of its operations and management into global commodity streams. (The exception was gold where Gencor remains convinced that digging out deep South African gold is entirely different to gold mining elsewhere.)

As part of the process, the group's aluminium interests were put under the management control of Mr Derek Keyes, the former South African finance minister. However, Mr Davis admits the ownership structure of the interests conflicts with this structure because Gencor owns only 41 per cent of Alusaf. "It will take years to get the aluminium interests into one vehicle," he says, because it will take time to negotiate a price seen as fair to everyone.

Mr Davis says Gencor's strategy remains the building of a big international mining group. Recent announcements that it might build new aluminium and zinc smelters in southern Africa shows it retains an appetite for greenfield projects. It certainly has not lost its appetite for acquisitions even though it is constrained by South Africa's exchange controls.

Although there is no lack of management depth at operational level, Gencor's top management team is small and is under tremendous pressure, Mr Davis admits. "We have a small and stretched team at the top. We all have a wide range of responsibilities and work hard. But there is a commonality of thinking about strategy, and that helps."

Kenneth Gooding

MAM to win Equitas contract

By Ralph Atkins, Insurance Correspondent

Mercury Asset Management, the largest UK fund manager, is about to be awarded the contract to transfer up to £10bn ($15.2bn) in funds being assembled by Lloyd's of London to finance its rescue vehicle, Equitas.

The deal is one of the largest ever awarded by an insurance concern and will dwarf most "portfolio transfers" overseen by pension and other fund managers.

MAM is understood to have beaten rival fund managers because of its experience in handling large, complex transfers and in the US where a chunk of Lloyd's funds is held in trust.

The appointment of MAM as "transitional manager" marks the latest stage in the setting up of Equitas, the large reinsurance company that Lloyd's plans to take responsibility for billions of pounds of mainly-US liabilities outstanding on old insurance policies.

Equitas will from August take over assets held in reserve by Lloyd's syndicates or collected from Names, the individuals whose assets have traditionally supported the insurance market.

The reinsurance company forms the centrepiece of Lloyd's recovery plan which includes spinning off outstanding US asbestos and pollution claims to create a clean new insurance market. The plan depends on Names' support in votes this summer.

Lloyd's syndicates have generally held funds in cash or short-term bonds. MAM will switch those assets into longer-term instruments which match better the expected timescale over which Equitas will pay insurance claims.

The size of the transfer could lead to considerable disruption in financial markets. Equitas is understood to have instructed MAM that it does not seek deliberately to move prices in the hope of speculative gains.

Latest estimates by Lloyd's suggest Equitas will have assets of about £13bn but MAM will manage a smaller amount because Equitas will be awaiting payments on reinsurance policies, taken out to protect syndicates against big losses. Other amounts will also have been paid to settle claims prior to Equitas becoming operational. The total that MAM will handle is expected to be between £5bn and £10bn.

ANA has best result in four years as new capacity comes on

By Gerard Baker in Tokyo

All Nippon Airways, Japan's second largest carrier, recorded its best operating and pre-tax profits performance for four years in the year to the end of March. The results come on the heels of a similar announcement by Japan Airlines, the country's biggest carrier.

Operating profit rose 70 per cent to Y27.3bn ($253m), on overall sales that were 5.4 per cent higher at Y846bn. Recurring profit – before extraordinary items and tax – jumped from Y1.1bn to Y16.8bn. Net profit was 26 per cent lower at Y3.1bn, mainly because of the previous year's special profit on sales of land of Y10bn.

ANA said the improvement in operating performance was the result of a faster increase in revenue from new capacity than the increase in costs on the new routes, coupled with the beneficial effects of its medium-term restructuring programme.

The total number of passengers on domestic routes rose 3.6 per cent as ANA added three services to its internal schedules. New international routes increased international capacity by 23 per cent.

The new services were centred on flights between Kansai International Airport in Osaka and Asian and European destinations. The number of passengers on international routes rose 31 per cent.

The growing importance of international routes for the largely domestic carrier was reflected in a sharp increase in the proportion of total revenues from international operations. The contribution from these operations to total revenues rose 3 percentage points to 19.3 per cent.

The company said it was on target to meet the goals of its three-year restructuring plan begun in April 1995. It aims to reduce unit labour costs by 20 per cent and increase revenues by 15 per cent by March 1998.

For the year to next March, ANA forecast a recurring profit of Y18.5bn and a net profit of Y4.7bn on operating revenues of Y883bn.

Metallgesellschaft sued by former offshoot

By Wolfgang Münchau in Frankfurt

Metallgesellschaft, the German industrial and trading group, has been sued by a former subsidiary in a case which yet again serves as a reminder of its troubled past.

BUS Berzelius Umwelt-Service, an environmental services company, has sued MG for DM100m ($64.7m), the sum equivalent to a write-down relating to BUS's acquisition several years ago of Horsehead Resource Development, a US recycling group.

BUS claims that it was forced by MG into making the acquisition.

Shares in MG were hit by the news of the lawsuit in early trading, but later recovered to close at DM28.28, down 77 pfennigs.

Mr Harald Rieger, general counsel for MG, said yesterday: "We see no justification even to make payments on a small scale." He said the company would not be making any provision to cover the claim.

MG maintains the decision to make the acquisition was taken independently by BUS's management, even though the management contacts between the parent group and its former subsidiary had been close at the time.

MG argues that BUS is wholly responsible for any losses or provisions that were to surface later.

News of the suit came on the day that MG – which almost went bankrupt two years ago after incurring heavy losses on oil futures – said it was on target to reach its goal of DM300m in pre-tax profits in the current financial year to the end of September.

MG said yesterday that six-month profits to end-March were down from DM81.7m to DM70.3m. The fall in pre-tax profits was blamed in part on cyclical factors relating to its plant construction subsidiaries.

Last year, the company booked a larger proportion of sales in the first half compared with this year's period. MG said that on a cyclically-adjusted basis, pre-tax profits would been about DM120m in the first six months of the current financial year.

Turnover was down from DM9.6bn to DM6.5bn as a result of heavy restructuring during the past two years. Mr Kajo Neukirchen, chairman, said: "The reduction in turnover has been caused also by the weaker economy. The fall in demand has affected all business divisions, though in different degrees. It affected particularly the trading operations, whose turnover is traditionally strong."

Turnover in the trading division fell from DM5.23bn to DM2.86bn, while that of the plant construction and chemical divisions was up slightly. MG also said was looking at two or three acquisition "candidates" in the US chemical and plant construction sectors. It gave no details.

Convincing investors of the magic of AGF

With the public offer oversubscribed, foreigners must now be enticed

Like Dr Dulcamara selling his magic potions in Donizetti's *L'Elisir d'amore*, executives of Assurances Générales de France, the insurance group, have been busy travelling abroad marketing their group's shares at what they stress is a low price.

Unlike the elixir being sold by the doctor in the opera, which is currently playing in Paris under AGF's sponsorship, investors hope the stake they are being offered will prove to be of a more certain quality.

Earlier this month, shortly after the French government finally gave the green light for the sell-off of AGF, the state privatisation commission announced the pricing of the issue to the public, at FFr128 a share.

The price is a little above some investment bankers' expectations, at a relatively low discount to AGF's closing share price of FFr139 on the day of the announcement.

For Mr Antoine Jeancourt-Galignani, AGF chairman, it was nonetheless in line with expectations. "I think it's a good price," he says. "It is the best that could have been hoped for."

This sentiment is shared by Mr Jean Arthuis, the French minister of finance and economics, who called the price "attractive" to investors.

Despite some initial reluctance by individual investors to pre-register for AGF shares, the preliminary indications yesterday, at the close of the public offer, suggested it had been comfortably oversubscribed. The key question for the group's employees, who have until today to put in bids, is whether the investment is worthwhile at the offer price.

Certainly, Mr Jeancourt-Galignani stresses that the days of the mass popular share offerings of 1993 and 1994 – some of which lured more than 1m investors – are over. This was reflected in the government's privatisation strategy for AGF, which is allocating just one-third of the 68m shares on sale to individuals.

The AGF chairman, who travelled to the Middle East, the UK and the US as part of the marketing exercise to institutions, says he is often asked about the legacy left by the poor performance of the previous round of French financial sector privatisations – notably that of UAP, a rival insurer, which has never seen its share price rise above the original offer level.

His response is to point to a graph showing the share price of AGF and its competitors against their net asset values. It was only during that short period two years ago when the assets exceeded the share price. Since then, a significant discount has developed – one which he believes will narrow in the future.

Another concern yet to be resolved is the way in which management will operate after the privatisations, with details of the composition of the group's new boardroom yet to be announced. In contrast with previous state sell-offs, there is no formal core group of shareholders. But several French groups will nevertheless have substantial holdings in AGF.

One insurance analyst suggests the true value of the group's assets is about FFr180-FFr190 a share. "The shares have already been discounted by the market because everyone expected this privatisation," he says. "There is no great need for any further discount. I think the offer price offers a reasonable opportunity for investors."

He stresses that AGF has dealt more effectively than some of its competitors in making provisions against the deterioration in investments. Last year it made substantial provisions against investments in the French property market, and in Comptoir des Entrepreneurs, the specialist property bank in which it now has majority control. He argues that there is still potential for further write-downs related to these two factors, but does not expect the charges to be large.

The analyst highlights the group's decision to focus on four of its more profitable business divisions while reducing its commitment to more competitive mass market policies.

There are other fundamental considerations for investors concerning the underlying health of the group. Mr David Anthony, an analyst with the credit rating agency Standard & Poor's, says: "AGF is a profitable group with a viable future."

His agency has given AGF an AA rating for its claims-paying ability, and A1 for the short-term debt on its holding company. "We are impressed by the management team, and the capitalisation across the group is very sound," he says. "There are no black holes and the group is starting on a good footing with something resembling a clean slate."

One note of encouragement for wary private investors is the fact that institutions appear to have been enthusiastic in responding to AGF's privatisation, in contrast to other recent French state sell-offs, such as Pechiney, the aluminium and packaging group. "To have such a large level of over-subscriptions for a secondary offering is quite incredible," one banker says.

Andrew Jack

Antoine Jeancourt-Galignani: 'I think it's a good price'

Demand for shares in the privatisation of Assurances Générales de France has substantially outstripped supply, according to preliminary estimates by bankers yesterday, writes Andrew Jack in Paris.

The public offering of shares, at FFr128 each, closed yesterday with initial calculations suggesting it had been more than two times oversubscribed, representing about 700,000 investors. Employees of AGF, who have until today to place their orders for the 6.2m shares reserved for them, have also shown strong interest.

Institutional investors involved in the book-building process are believed to have oversubscribed more than six times to their allocation. There was healthy interest from large US investors. The institutions have been lobbying the French government for a minimal premium above the price of the public offering. However, demand is likely to push up the price, which is expected to be announced by the privatisation commission late today. One banker estimated the offer price was likely to be in the range of FFr133 to FFr135 a share.

Higher oil prices lift Saga profits to NKr1bn

By Hugh Carnegy in Stockholm

A sharp increase in oil prices helped drive Saga Petroleum, Norway's biggest independent oil company, to record pre-tax profits of NKr1.06bn ($160m) in the first four months of the year, up from NKr658m in the same period last year.

However the result, the highest achieved for the period by Saga, was at the low end of market expectations, prompting a reverse in Saga's shares on the Oslo bourse before a recovery left the group's most-traded A share down NKr0.50 on the day at NKr93.

Analysts said the main reason for Saga failing to meet expected performance at the pre-tax level was the diversion of 1.2m barrels of oil from sales to the group's inventory during the period. This in effect reduced profits by NKr85m. The inventory rose as a result to 1.9m barrels, while sales of oil fell from 13.8m barrels to 12.5m.

Saga benefited from a 12 per cent increase in the price of oil compared with the same period last year. It said the average price achieved was NKr124 a barrel, against NKr111 a barrel last time. Profits were also boosted by financial gains of NKr196m, against financial charges of NKr50m last time.

Lower-than-expected tax dues, which are normally high for Norwegian oil producers, inflated the bottom line.

Tax charges were limited to NKr613m, against NKr417m last time. This allowed net profits to double from NKr241m to NKr449m. Earnings per share jumped from NKr1.84 to NKr3.30.

Saga said total petroleum production rose from 15.2m barrels of oil equivalent during the first four months last year to 16.3m barrels. Of this 1.2m barrels were accounted for by "royalty oil" paid to the state. Coupled with the effect of the diversion of oil to company stocks, group sales rose only slightly from NKr1.99bn to NKr2.03bn, leaving operating profits up from NKr706m to NKr866m.

NEWS DIGEST

Mondragón investor scheme put on hold

Plans for bringing stock market investment into the Mondragón group of co-operatives, based in the Spanish Basque region, have been put on hold. Mr Antonio Cancelo, who took over last year as chairman of Mondragón Corporación Cooperativa, the central administration at the head of the group, said the scheme needing improving and simplifying to make it more attractive to investors.

The idea of channelling funds from Spanish and foreign institutions into the group remained "a long-term strategic project", he said. However, he made clear the group needed to be certain the scheme would be a success in its initial phase. The project was still being worked on, but there was no fixed timetable.

"This is something absolutely new," Mr Cancelo said, referring to the search for a formula which would bring in stock market funds alongside the group's successful worker-ownership structure. Last year, MCC bought a quoted investment company, Ascorp, to act as a vehicle for the investments, which were initially to be "special participations" in selected co-operatives, with a "reserve" for channelling into new businesses, including joint ventures. However, the management backed away from the scheme, worried that if the stock failed to perform well the group's prospects for bringing in outside capital would be seriously damaged. Mr Cancelo said the group, embracing some 100 industrial, financial and retailing co-operatives and employing about 28,000, expected pre-tax profits of Pta42bn ($325m) this year, an increase of 11 per cent. This follows a 12 per cent rise in 1995, to Pta37.89bn.

The group aimed to raise turnover by 12 per cent, to Pta622bn, after a 16 per cent growth to Pta558.78bn last year. Industrial exports, including capital goods, components and household equipment, were expected to increase a further 20 per cent, to Pta116bn, following a spurt of 34 per cent in 1995. The group plans a Pta40bn programme of investment outside Spain, tripling its network of overseas plants to 30 at the end of the decade.

David White, Madrid

KHD rescue talks continue

Klöckner-Humboldt-Deutz, the German engineering company which is threatened with bankruptcy, will today continue talks with "many parties" on the possibilities of rescuing the company with a fresh injection of capital. The Cologne-based group said it was in touch with Mr Michael Endres, the board member of Deutsche Bank who heads KHD's 16-strong non-executive supervisory board. Deutsche Bank, Germany's biggest bank, controls KHD through a 47.7 per cent stake.

KHD may have to declare itself bankrupt after discovering hidden losses of DM650m ($420.6m) last Friday. Actual losses amount to DM300m, while possible further losses total DM350m, said Mr Theo Röhrig, a member of the supervisory board which oversees the three-man management board of KHD. The group's equity amounts to just DM298m, having been eroded repeatedly during previous rescue attempts in recent years.

The government of North Rhine-Westphalia, the north-western German state where KHD is based, and the city of Cologne also held a first round of talks late on Wednesday with the KHD management board to discuss the chances of saving the company. Cologne last year bought several plots of land from KHD in an effort to boost the group's liquidity and is due to buy more land later this year. These purchases may now be brought forward.

Michael Lindemann, Cologne

Belgium floats rest of Distrigaz

The Belgian government is floating its remaining 16.71 per cent stake in Distrigaz, the national gas distribution monopoly, on the Brussels bourse in a public offering valuing the stake at BFr3.27bn ($103m). The offering, handled by a consortium of Générale de Banque, Banque Paribas Belgique and Delen & Co, is of 116,809 shares at a price of BFr28,000 each, open from June 3 to June 7. The offer may close early if demand exceeds the shares available.

The flotation has been expected since 1994, when the government began privatising the state-owned holding company SNI, which held 50 per cent of Distrigaz. Tractebel, the energy and engineering holding company, acquired the 50 per cent, leaving Belgian energy utilities with 16.63 per cent, Shell Belgium with 16.67 per cent, and the Belgian state with the rest. After flotation, the government will retain one "golden share" allowing it to veto decisions affecting Belgian energy policy.

Neil Buckley, Brussels

Italian financial services merger

Akros Finanziaria and Sopaf, the Italian financial services companies, are to combine their fund management, insurance and broking subsidiaries in a new joint venture, Akros Investimenti. The companies said yesterday that Akros Investimenti would become the third-largest fund manager in Italy not owned directly by banking and insurance companies, and the largest securities house outside the banking sector. The new company will have L4,200bn ($2.7bn) of funds under its management.

At the same time, Commercial Union, the UK insurer, is to raise its stake in the Akros insurance subsidiaries involved in the deal to 80 per cent, and cut its stake in the fund management subsidiaries to 20 per cent. The rest of the shares in the companies, which belonged to Akros Finanziaria, will be injected into the new joint venture. Sopaf will invest an initial L82.5bn in the new joint venture, and a further L33bn if Akros Investimenti exercises its option to buy out 85 per cent of Akros Attimo, the Akros banking subsidiary. In return, Sopaf will receive some L34bn for the fund management activities of Pasfin Securities.

Andrew Hill, Milan

■ Airtouch, the US cellular communications company, is to become the second-largest shareholder in Omnitel Pronto Italia, Italy's second mobile telephone operator, by buying a 4 per cent stake from Banca di Roma for L300.5bn. Banca di Roma announced yesterday it was selling its 13.5 per cent stake in Pronto Italia, which owns 30 per cent of Omnitel Pronto Italia, to Airtouch's wholly-owned subsidiary, ATI Netherlands II.

The purchase will give Airtouch a 15.75 per cent holding in Omnitel Pronto Italia. Omnitel Pronto Italia's largest shareholder is Olivetti, the Italian computer and telecoms group, which owns 41.3 per cent, having bought out Lehman Brothers of the US last year. Bell Atlantic, another US operator, has an 11.6 per cent holding.

Andrew Hill

Mediaset approves float price range

By Andrew Hill in Milan

The board of Mediaset, Mr Silvio Berlusconi's media company, yesterday approved a wide price range for its planned flotation, which is likely to value the company at L7,000bn ($4.49bn).

Mediaset said it would not reveal either the range or the conditions of the offer until Consob, Italy's financial markets watchdog, had approved the prospectus.

It is understood, however, that the minimum price will be L6,000 a share and the maximum, L7,200. Minority investors, who already own just over 30 per cent of Mediaset, paid L6,875 for their shares, or L55,000 at the old value, before a bonus share issue.

Mediaset would like Consob to approve the prospectus by the weekend, allowing the media company to launch its international investment roadshow in the middle of next week. But it seems unlikely that the watchdog will hurry the process, and Consob may wait until Monday before deciding whether to give the go-ahead to the flotation.

If Consob approves the prospectus, Mediaset will offer 220m shares to new shareholders, half through a capital increase and half through a reduction in the stake of Fininvest, Mr Berlusconi's private holding company, which could raise L800bn from the sale.

Bankers advising Mediaset had pressed Fininvest to accept a wide price range to take account of potential investors' concerns about the judicial investigations into Fininvest's affairs.

One of the aims of the flotation was to cut Fininvest's stake in Mediaset to less than 50 per cent, thus ending accusations of a conflict of interest between Mr Berlusconi's political ambitions and his business activities. But Italian news agencies reported last night that if the over-allotment option, or "green shoe", were not exercised, Fininvest would be left with a majority stake.

Advisers to Mediaset, which owns Italy's three largest commercial television channels and Publitalia, the country's biggest television advertising company, have recently tried to insulate the company from accusations of falsification of accounts at Fininvest.

Bankers close to the issue say that although they are nervous about the effect of the inquiries on the image of the company, they believe market conditions are ideal and there will be a strong appetite for the company's shares. Earlier this week, British Telecommunications and Banca Nazionale del Lavoro invested L170bn in Mediaset through Albacom, their telecoms joint venture, as part of a deal to exploit Mediaset's potential in the telecoms sector.

Roland Europe to launch flotation

By Andrew Hill

Roland Europe, which manufactures electronic musical instruments, yesterday became the second Italian company in a week, and the fourth this year, to launch a flotation on the Milan stock exchange.

Roland Europe, controlled by Roland Corporation, the Japanese manufacturer of electronic keyboards, is to float 29 per cent of its capital in Milan. The sale of 6.38m shares, 4m from a capital increase and the rest from existing shareholders, values the company at up to L120bn ($77m).

Earlier this week, Esaote, a biomedical company, began its investment roadshow, less than two years after it was the subject of a management buy-out from Iri, Italy's state holding company.

Some 44 per cent of Esaote will be floated in a combined capital increase and sale of institutional investors' shares, valuing the company at up to L177bn. The Esaote offer opens on June 11.

With the help of government incentives, the Italian stock exchange authorities are trying to encourage more of Italy's dynamic small- and medium-sized companies to come to the Milan market, which is underweight compared with the size of the national economy.

Roland Europe will remain under the control of Roland Corporation, which is itself quoted in Osaka and first took control of the Italian company in 1988.

Mr Carlo Lucarelli, Roland Europe's chairman, said yesterday that the move fitted into the Japanese parent's plan to give more autonomy to its subsidiaries in Europe, the US and Asia.

The funds raised will be used for expansion of Roland Europe's production facilities, research and development operation, and sales network. "We want to reach a position of absolute leadership in Europe in the next three to five years," said Mr Lucarelli.

Shares in Roland Europe, which last year reported turnover of L109bn and produces more than 170,000 musical instruments a year, will be priced at between L4,300 and L5,500 each. The offer opens on June 6.

So far the stock market has attracted mainly banks and companies which are already partly owned by institutional or corporate investors.

The largest family company to seek listings on the Milan exchange has been Fininvest, the private holding company of Mr Silvio Berlusconi, the media magnate and former premier.

Fininvest completed the sale of part of its stake in Mediolanum, the life insurance and financial services group, earlier this month, and aims to float Mediaset, the media group, during June or July.

Varity puts off results as Lucas merger nears

By Tim Burt

Varity Corporation, the US automotive components group locked in merger talks with Lucas Industries of the UK, has postponed its first-quarter results for the second time, raising expectations that a deal is imminent.

The Buffalo-based group, which is North America's largest manufacturer of vehicle brakes, yesterday said it would not be releasing its figures until June 6. Last week it put the results back by seven days to enable senior managers to continue negotiations with Lucas.

Industry analysts in New York had been expecting Varity to report a fall in first-quarter profits from $33.1m to about $25m following sluggish demand for its Dayton Walther truck components and start-up costs of $5m in south-east Asia.

Mr Victor Rice, the British-born chairman and chief executive of Varity, is expected to announce the merger terms in a joint statement with Lucas shortly. Some analysts suggested that a statement could be issued as early as today, but most predicted that the £3bn ($4.6bn) deal – barring last-minute hitches – would be unveiled next week.

Under the terms of the deal, Mr Rice is expected to become chief executive of the enlarged group. Sir Brian Pearse, Lucas chairman, would maintain that role in the new company.

Mr George Simpson, chief executive of Lucas, is likely to hand over to Mr Rice later in the summer before leaving to join GEC, where he is succeeding Lord Weinstock, currently managing director.

Advisers acting for the company, however, said that while the companies were making good progress, there remained "two or three issues that could yet prove problematic".

Lucas, the larger of the two companies, is understood to be pressing for an all-paper deal in which its shareholders would have slightly more than 60 per cent of the share capital of the enlarged group.

The company embarked on intensive talks with Varity several weeks ago, shortly after Mr Simpson warned an automotive industry conference in Detroit that component suppliers would have to consolidate to survive.

Lucas turned to Varity after rejecting an offer from Italian industrialist Mr Carlo de Benedetti to buy a minority stake in Valeo, the French components group.

Lucas shares closed down 3p at 231p. Varity shares rose $¼ to $45⅝. Varity has been advised by Lazard Brothers; Lucas by Goldman Sachs and Schroders.

Healthcare insurers agree to link-up

By Lisa Bransten in New York

In another round of the consolidation that is changing the face of the US healthcare industry, Blue Cross and Blue Shield of New Jersey, a non-profit-making insurer, agreed to merge with Anthem, an Indiana-based insurer, to create one of the largest healthcare companies in the US.

Last week, the New Jersey insurer agreed to acquire Blue Cross/Blue Shield of Delaware, and if both deals go forward the merged company would have more than $9bn in revenues and would cover as many as 11.1m people.

As part of the merger, the New Jersey insurer will convert to a for-profit mutual insurance company owned by its policyholders. Anthem is already a mutual insurance company.

In some instances, Blue Cross companies have had to make large payments as they converted to for-profit companies, in order to repay taxpayers for benefits received as non-profit entities.

Anthem, however, said it did not expect to have to make such a payment because the New Jersey company stopped receiving special tax benefits in the early 1990s when it was deemed to have no value. "Since then the policyholders have created the current value in the company," Mr Michael Murphy, an Anthem official, said.

Mr Douglas Sherlock, president of Sherlock, a boutique investment bank specialising in healthcare, was sceptical about the benefits from the merger because their respective markets were not contiguous so the bargaining power with healthcare providers is not necessarily enhanced. He added that the deal should be good for New Jersey company's balance sheet.

The merger must be approved by policyholders of both companies and by the state insurance commissioners in New Jersey and Indiana.

Hollinger deals put media policy in doubt

Canadian government has hinted that it may change rules on newspaper ownership

For years, Canadians have applauded government policy to restrict foreign ownership of domestic newspapers.

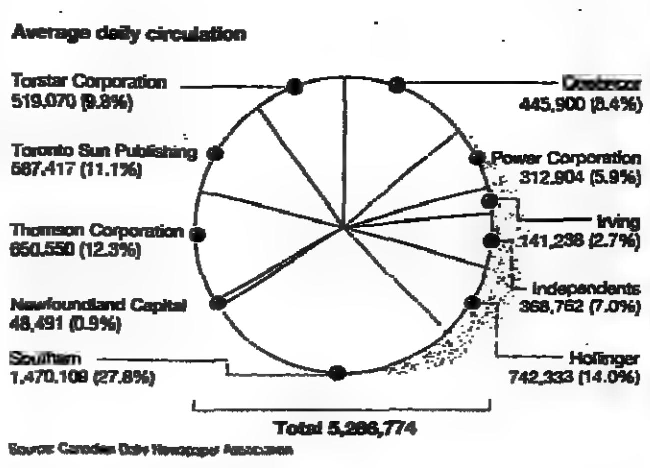
The wisdom of that policy is now being questioned in the wake of a series of deals that has catapulted Hollinger, Mr Conrad Black's publishing group, from a relatively minor player to the controlling shareholder of more than half Canada's daily papers.

According to Mr Black, Hollinger is now the world's third biggest newspaper chain, after Gannett of the US and Mr Rupert Murdoch's News Corporation. Its other interests include the UK-based Telegraph group, the Chicago Sun-Times, the Jerusalem Post, and several hundred small US papers.

Hollinger's buying spree on its home turf culminated last week in a deal that raises its stake in Southam, the biggest daily newspaper chain, from 20.5 per cent to 41 per cent. Southam's stable includes leading papers in Vancouver, Ottawa, Edmonton and Calgary, as well as the only English-language daily in Montreal.

Earlier acquisitions gave Hollinger a monopoly on the daily newspaper market in three of Canada's 10 provinces. Toronto is the only significant city where it does not have a presence.

Taking a slice of Canada's newspaper cake



Source: Canadian Daily Newspaper Association

Conrad Black
President of Hollinger

Even that could change if Mr Black succeeds in gaining control of the Financial Post, a Toronto-based business daily, which is up for sale. Hollinger currently owns 19.9 per cent of the Post. It has a right of second refusal on the remaining shares after Pearson, owner of the Financial Times, which has a 19.9 per cent stake.

Hollinger also plans shortly to lift its stake in Southam to over 50 per cent, and may later buy out the remaining minority shareholders.

Hollinger's rapid emergence as the dominant force on the Canadian newspaper scene has drawn fire from several quarters, notably trade unions and an influential lobby of cultural nationalists.

Mr Black has inspired little affection among his fellow Canadians since his involvement in a number of controversial deals outside the newspaper business in the late 1970s and early 1980s. Rightly or wrongly, he is widely viewed as the epitome of an avaricious, right-wing capitalist intent on imposing his views on readers of his newspapers.

Mr Black launched a spirited defence of his purchases and his management style at Hollinger's annual meeting in Toronto on Wednesday. He noted that Hollinger and Southam papers combined add up to only 40 per cent of the total circulation of Canadian dailies, and that they are read by a mere 7.2 per cent of Canada's population.

"Newspapers do not have the media market share they did prior to the rise of a practically unlimited variety of television channels and the emergence of alternative electronic media," he added.

As for Southam, Mr Black said that management had "long accepted inadequate returns for the shareholders, published generally undistinguished products for the readers and received exaggerated laudations from the working press for the resulting lack of financial and editorial rigour".

The crux of the issue may be that there seem to be more sellers than buyers of Canadian newspapers. Thomson Corporation, the international travel and publishing group, has unloaded most of its stable to concentrate on electronic and specialist publishing.

Rogers Communications, the biggest cable-TV operator, has put up for sale its majority stake in Toronto Sun Publishing, whose strength is in mass-market tabloids.

Hollinger obtained advance clearance from the Competition Bureau, the government's antitrust watchdog, before going ahead with the Southam purchase.

Foreign buyers have been discouraged for more than a decade by the Income Tax Act, which confines tax deductions on advertising to publications with a minimum 75 per cent domestic shareholding. The government dropped hints this week that the curbs may be reviewed.

In the meantime, as Mr Black put it, "I appear to be the only game in town."

Bernard Simon

Four Asian chipmakers to use Sun design

By Paul Taylor

Four leading Asian semiconductor manufacturers, NEC and Mitsubishi of Japan and LG Semicon and Samsung of Korea, agreed yesterday to license a new microprocessor design from Sun Microelectronics, part of Sun Microsystems.

The four companies have signed letters of intent to license Sun's new Java Chip technology, designed to run the next generation of low-cost network computers, printers and smart telephones aimed at the consumer market.

Production of the first Java Chips – dubbed picoJava – and the systems built around them are expected to begin next year.

The Sun microprocessor is expected to be an alternative to the Advanced Risc Machine microprocessors, designed by Arm, the Acorn and Apple Computer joint venture, which are expected to power the first network computers when they appear later this year.

"We intend to make picoJava the de facto standard for the new breed of consumer, communications and network centric appliances," said Mr Chet Silvestri, president of Sun Microelectronics, which designs Sun's family of high power microprocessors.

Mr Silvestri believes the new chips, which are optimised to work with Sun's Java operating system and HotJava Web browser software, will power devices such the specialist Java-enabled cellular telephones announced recently by Nortel, the Canadian telecommunications equipment group.

The licensing agreement with the four Asian semiconductor companies is seen as crucial to the success of the technology, since Sun Microelectronics has no chip-making capacity of its own and will require powerful partners with strong footholds in the consumer electronics markets.

Mr Gene Lee, a senior industry analyst with International Data Corporation, said: "The potential volume for embedded Java powered applications through these companies is tremendous. These four leading semiconductor producers, with billions of dollars in consumer electronics revenues and well established channels throughout the world, will push the Java technology exponentially in the advent of the consumer computer alliance market."

Under the terms of the proposed licensing agreements each company will have broad access to Sun's Java technology which they will then build into their own Java powered microprocessor designs and systems. "Each will then be able to manufacture, market and distribute these product worldwide," said Mr Raj Parekh, vice-president and chief technology officer of Sun Microelectronics.

Canal Plus plans Belgian digital TV service by year-end

By Neil Buckley
in Brussels

Canal Plus, the French-based broadcasting group which last month launched a 20-channel digital TV service in France, said yesterday it hoped to launch a similar service in Belgium by the end of the year.

Mr Jean-Claude Paris, vice-president of Canal Plus Belgique, the Belgian subsidiary, said negotiations were under way with 20 local cable TV distribution companies in the French-speaking part of Belgium. He hoped to reach agreement by the summer.

Mr Paris said a digital service could use the cable companies' existing coaxial cable network, except in certain areas where ageing cables would have to be replaced – unlike in France, where the service is broadcast via the Astra 1E satellite and subscribers need a satellite dish.

Initial infrastructure costs were therefore likely to be low, although Canal Plus would share with cable companies the costs of installing digital transmission technology.

Negotiations are likely to be complex, however, involving a range of publicly-owned, privately-owned and mixed cable utilities.

Mr Paris believed the service would quickly gain popularity in Belgium, where Canal Plus has 180,000 subscribers to its existing analogue TV channel.

"There is no psychological barrier in Belgium," he said. "There is no need to put a satellite dish on the roof."

More than 90 per cent of Belgian homes are connected to cable services – the highest proportion in Europe.

The comments from Canal Plus, at a presentation in Brussels, came a day after US West, the telecoms group, completed a deal with 17 district cable companies and a consortium of investors in Flanders, Belgium's Dutch-speaking region, to develop a sophisticated broadband network. The network could carry both telephone and interactive TV services.

Mr Paris said Canal Plus was keen to launch a service in Flanders, but was unable to reach agreement with the Flemish authorities.

Executives from Canal Plus France said the French digital service – the first of its kind in Europe – had attracted 45,000 subscribers in its first month.

It is aiming for between 150,000 and 200,000 subscribers by the end of the year, compared with the 4m subscribers to its analogue channel in France.

Canal Plus also planned to launch a digital service in Spain next year, and hoped to get the first digital services in Germany operating by the end of this year, in partnership with Bertelsmann and Mr Rupert Murdoch's BSkyB.

The partnership must be approved, however, by both the German and European Commission's competition authorities.

SEC approves rule changes

By Maggie Urry in New York

The US Securities and Exchange Commission yesterday voted to implement proposals to reduce the burden of corporate reporting, put forward in a task force report in March. The report found that many filings that companies were required to make either duplicated information or were obsolete.

One of the main changes agreed yesterday will simplify rules on insider trading by directors and officers of companies. Current rules are complex and have placed a heavy compliance load on companies.

Section 16 of the Securities Exchange Act is intended to stop company directors and executives who may have inside information from making quick profits in their companies' shares.

The regulations prevent them from taking a profit within six months, but they have also forced companies to structure compensation packages involving shares to avoid running foul of the rules.

Foster's takes time to exploit new freedom

Investors are getting impatient as brewer ponders moves into wine, leisure and Asia, says Nikki Tait

Ted Kunkel, chief executive of Foster's Brewing of Australia, ought to be in an enviable position. After several years of restructuring, he has a modestly geared company to run, with a dominant share in its core market, and a number of promising add-on businesses.

Yet the stock market remains impatient. Ever since Melbourne-based Foster's sold its Courage brewing business in the UK for £443m ($673m) last year, analysts have wondered what Mr Kunkel will do next and how he will use the group's new-found financial flexibility.

Mr Kunkel is the first to acknowledge the problem, which meant a big dent in interim profits earlier this year. "We're keeping our eye open for an earning-per-share-enhancing beer business," he says.

"But the reality is, in the beer world of today, those sorts of businesses are not readily available. When you do find them, you usually have to pay a very high multiple for them, and that would normally end up dilutive.

"So, OK, we're prepared to keep looking for a business like that. But you can't sit around forever waiting for a business to come to you."

Three alternative strategies have emerged so far. First, there has been a push into "blue sky" businesses – in particular, investments in three breweries in China.

But this remains a relatively modest move, and one which will not produce much in the way of profits in the short-term. Mr Kunkel says that the sort of sums he is prepared to invest in new markets amount to about A$200m (US$160m), of which China has consumed A$120m. He has previously cited Vietnam and India as possible candidates for the remainder, but insists that this list is not meant to be restrictive.

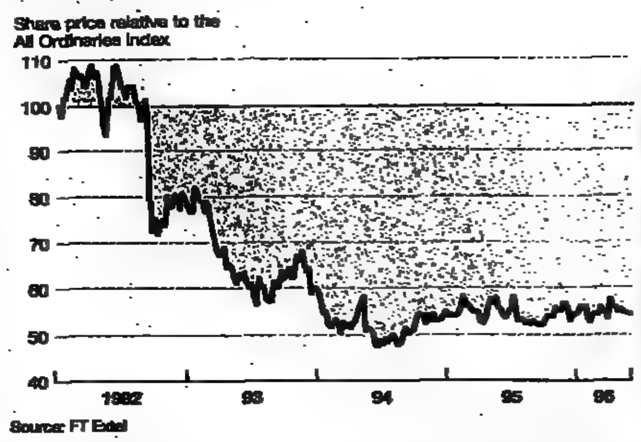
"People have painted me into a corner and said you're only going to these three countries. Certainly, these are not the only three. It's broader Asia.

Wine progress

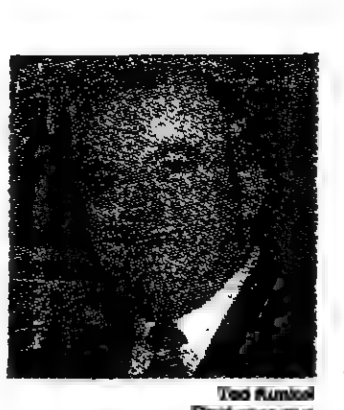
Foster's yesterday moved ahead in its A$44m bid battle for Rothbury Wines when BRL Hardy, another winemaker and rival suitor, agreed to sell its 18 per cent stake to the brewer. This gives Foster's about 35 per cent of Rothbury. Foster's also announced completion of a A$300m 20-year bond issue in the US, which will be used to refinance existing bank borrowings.

We've had a look at South America, and we've had a look at eastern Europe." At present, Foster's is one of the interested parties looking at the possible acquisition of the Tychy Brewery in Poland, set for imminent privatisation. Mr Kunkel says he has not yet decided whether to enter the final round of bidding.

Foster's: flat performer



Source: FT Extel



Ted Kunkel
Chief executive

Strategy number two is to use the 70 hotel properties which Foster's has, mainly in the Australian state of Victoria, and turn these into "local leisure destinations".

The third strategy, perhaps the move which has excited most interest, is a push into the wine business. Foster's bought Mildara Blass, Australia's largest listed independent winemaker, for A$482m earlier this year, and has entered the bid battle for the smaller Rothbury Wines.

"Australian wine presented itself as a naturally synergistic business. We understand brands, distribution, advertising, fermentation," says Mr Kunkel.

He adds that, with only 2 per cent of the world market, Australia's wine industry has ample scope to expand.

Sceptics note that Australian wine exporters have tended to position themselves poorly, selling a good quality product for very ordinary prices, and also that the industry will require a good deal of investment to ensure grape supply.

Mr Kunkel acknowledges the second point, but maintains that the first does not apply to Mildara. "We charge what we think is a very acceptable price. Our exports margins are probably not as good as our domestic margins, but they are still very acceptable margins in any business terms."

But will these strategies really suffice if a sizeable brewing acquisition cannot be found? Already, takeover rumours have circulated around Foster's itself, although the 38 per cent stake held by BHP, the Australian resources group, tends to mitigate against a hostile approach.

"I've always said that when you're in a high cash flow business, you can't let a balance sheet not work for you," says Mr Kunkel. "Appropriate gearing for a business such as ourselves is between 40 and 60 per cent. If you can't find businesses that meet your hurdle rates, then you have to look at your internal options – restructuring your balance sheet in some way."

The notion that Foster's might start buying back shares has already been circulated, and Mr Kunkel acknowledges that if "external" options look increasingly elusive, the "internal" solutions will be examined more closely.

But he denies that Foster's has reached this position already. "We've still plenty of things to do. Our strategic book is by no means empty."

"I think it's fair to assume that this means within the core competencies of the business," he adds. "We've got two channels of business – beer is our absolute competence and wine is our near-strategic competence. Certainly, it would be within those arms."

CDC adds to list of Manila securities offerings

By Edward Luce in Manila

Clark Development Corp, one of the Philippines' fastest growing special economic zones, is to issue up to US$1bn in asset-backed securities over the next five years.

The debt, which will be released in tranches of $200m when "the need arises", would be the first time the economic zone had tapped capital overseas.

Mr Romeo David, head of the CDC, said that the securities would be backed by physical capital at the the development zone's 53,000 ha site, a former US airbase, in much the same way that convertible bonds are collateralised with equity.

Proceeds from the offering, which will be finalised on June 15 when the authority is to announce the lead underwriter and other details about the issue, will be used to further develop infrastructure at the site.

The first tranche of the dollar facility – expected to be issued later this year on the global bond markets – will be the latest in a series of security offerings by Philippine companies this year.

The National Power Corporation (Napocor), which is due to be privatised next year in the biggest state sell-off to date, will issue a $250m global bond in July to finance a national transmission grid. Napocor last year issued the longest-term Philippine debt to date, a Y12bn ($110m) eurobond in Tokyo at a 20-year maturity.

Among other debt issues, the Philippine Long Distance Telephone Company is tapping the capital markets for the third time since 1993, with a $250m global bond issue ending on June 18. Underwritten by Lehman Brothers, the proceeds will go towards the conversion of the country's telephone lines from analogue to digital and the construction of a national fibre-optic network.

Other groups tapping debt overseas include Ayala Corp, the country's largest diversified holding company, and Metrobank, the country's largest private sector bank.

Yields on Philippine private and sovereign debt are expected to fall if the US credit rating agencies, Standard & Poor's and Moody's Investors Service, upgrade Manila's rating to investment grade. The agencies, which are in Manila assessing Philippine risk, last year upgraded Philippine debt to one notch below investment grade.

Yokohama Rubber hit by problem at US unit

By Michiyo Nakamoto in Tokyo

Yokohama Rubber, Japan's second-largest supplier of vehicle tyres, posted firm parent results for last year on the strength of stable domestic demand and higher exports, but stumbled on a group basis because of difficulties at its US operation.

Group sales were Y389.3bn ($3.58bn) and recurring profits – before extraordinary items and tax – were Y6bn in the year to the end of March. Net profits were sharply down at Y563m. Last year Yokohama had a three-month term because of a change of year-end, but compared with results in the full year to December 1994, consolidated sales were 3 per cent higher, recurring profits were 7 per cent down and net profits 70 per cent lower, the company said.

Yokohama Rubber enjoyed firm replacement demand in Japan although competition from cheaper imports depressed sales values. In unit terms, replacement tyres sold well, but the increase in sales value was just 1.2 per cent, it said.

Exports grew significantly because of the weaker yen. Demand for tyres in Asia was lifted by the growing number of vehicles, while Yokohama expanded sales in Europe because of stronger marketing. Exports were up 24 per cent.

Sales of tyres for new vehicles, however, were depressed by the shift of vehicle manufacturing to foreign locations.

A poor performance in the US was the main reason for Yokohama's disappointing consolidated results, the company said. The US operations faced an increase in raw materials costs of 24 per cent.

In the current year, Yokohama expects to get to grips with its US problems. As a result, and helped by continuing strong exports, the company forecasts group sales to rise to Y400bn, pre-tax profits to increase to Y9bn and net profit to improve substantially to Y3.5bn.

NEWS DIGEST

Minolta turnround ends run of losses

Minolta, Japan's leading producer of cameras and photocopiers, yesterday reported that it turned round into profit last year after five years of net group losses, and forecast a rise in sales and earnings for the current year.

The group made a Y4.2bn ($38.7m) net profit in the 12 months to March, on sales up by 9.6 per cent to Y365.7bn, because of cost reductions, mainly stemming from the shift of production capacity offshore.

With three-quarters of its sales abroad, Minolta suffered more than most Japanese manufacturers from the period of yen appreciation which swung into reverse last August. The introduction of new products and price increases on existing lines also contributed to the recovery, the company said.

It made a Y5.29bn recurring profit – before tax and extraordinary items – in 1995, from a Y3.26bn recurring loss in the previous year. Minolta yesterday predicted a 32 per cent rise in recurring profits to Y7bn in the year to next March on sales up by 12 per cent to Y410bn. *William Dawkins, Tokyo*

Strong sales restore Daishowa

Daishowa Paper, a leading Japanese paper manufacturer, posted its first recurring profit in six years, due in part to lower costs. It reported an unconsolidated recurring profit of Y16.1bn for the year to March from a loss of Y11.3bn the previous year. Sales rose 12.7 per cent to Y323.2bn on increased sales of printing paper.

At the after-tax level, there was a loss of Y6.8bn as the company incurred special losses of Y15.2bn related to bad loans to an affiliate.

For the current year to March, Daishowa expects unconsolidated recurring profits to rise 28.1 per cent to Y20.6bn, with sales forecast to rise 4.6 per cent to Y338bn. *Emiko Terazono, Tokyo*

Higher steel output lifts Sail

The Steel Authority of India (Sail), the largest of India's steel manufacturers, reported record net profits of Rs13.29bn ($378m), up nearly 20 per cent on the previous year, for the year to March. The company cited "higher volume of production, change in product-mix in favour of high margin items and improved techno-economic parameters". Shares in Sail rose 7 per cent to Rs30 following the results announcement.

Sail raised its production of steel to 9.16m tonnes from 8.84m tonnes in the previous year. Improved production efficiency enabled Sail to absorb more than Rs4bn of increased costs, according to Mr M. R. R. Nair, chairman. *Kunal Bose, Calcutta*

St George raises Metway offer

The bid turmoil in Australia's banking sector took a new twist yesterday when St George Bank, the Sydney-based regional bank, announced that it was raising its offer for Queensland-based Metway Bank to about A$816m (US$652m), compared with A$790m previously.

The merger between St George and Metway, which was originally agreed in March, appeared to have been scuttled earlier this week after the Queensland state government announced plans to merge Metway with Suncorp Insurance and the Queensland Industry Development Corporation. This would create Australia's fifth-largest financial services group, with assets of around A$21bn.

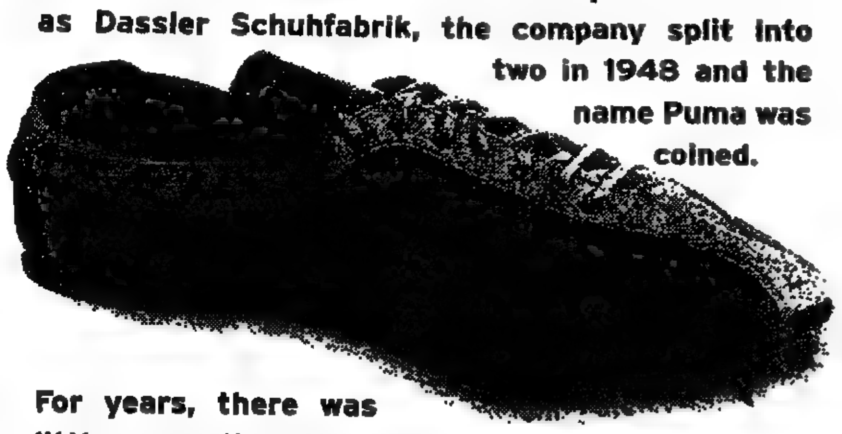
Under the Queensland deal, Metway shareholders were being offered A$4.65 a share, including a special four cent dividend. This was higher than the original terms from St George, of A$4.62 a share. *Nikki Tait, Sydney*

WE'RE PERFORMING BRILLIANTLY ON GRASS AND TARTAN.

AND JUST AS WELL ON PAPER.

The company that was to become Puma was born back in 1924.

It was launched by Rudolf Dassler and his brother into a sports market in its infancy. Known then as Dassler Schuhfabrik, the company split into two in 1948 and the name Puma was coined.



For years, there was little competition and the brand thrived, enjoying decades of market leadership. Business peaked in 1986, coinciding with a stock-market flotation.

Although new products and new technologies were consistently introduced, a rude awakening was in store in the shape of highly aggressive competition from Reebok and primarily Nike. Puma was quickly outpaced by its younger and fitter competitors.

Seven years in the wilderness lead to unsustainable losses. It became obvious that a programme of refocusing and restructuring was not only necessary but vital to the future of the company.

Thus, phase one of the restructuring programme was introduced in 1993. It involved drastic cost reduction. The streamlining of the product range. The creation of profit centres. And the outsourcing of production. As well as a painful, but absolutely crucial, headcount reduction.

Phase two began in 1994. Basically, this was an internal re-engineering process. The entire company culture was modernised. Business processes were redesigned. Product costing was closely examined. And a streamlining of suppliers was undertaken.

Phase three followed in 1995. At its core was a renewed focus on product. A focus that accurately reflects the company's mission statement:

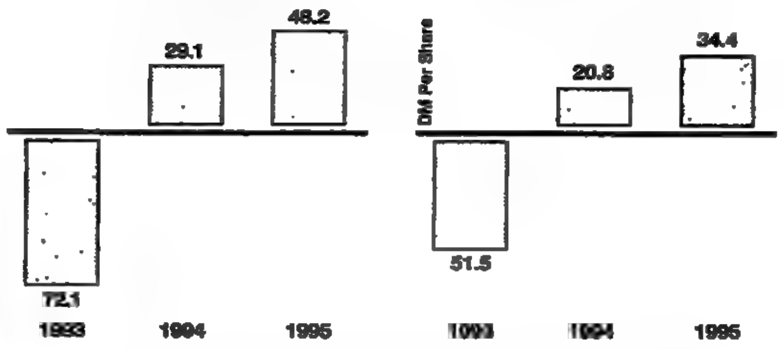
> 'to market excellent sports performance products that meet the needs and aspirations of today's consumers'

Allied to this was more stringent business management. A greater market and customer focus. A new product range. A global marketing strategy. Increased concentration on customer service. And tighter licensee control. These measures have lead to a welcome return to both growth and profit.

The impact of the restructuring has been widespread. Loss-making profit centres were reorganised or, in extreme cases, closed during phase one. In 1995, every one of the nine remaining profit centres did indeed make a profit.

Sales in the Puma Group and Worldwide (including licensees) have increased to DM413.6 million and DM1,128.9 million respectively. Margins, too, have improved markedly. Gross profits have risen from 29.9% of net sales to 37.4%. Income from operations has jumped from -11% to +14.5% of group net sales. While net income has leapt from -17.6% in 1993 to +11.7% in 1995. Not surprisingly, the impact on earnings per share has been enormous with an increase of 65.4% over the period '94-'95 alone.

NET INCOME (DM in millions) | **NET EARNINGS PER SHARE**



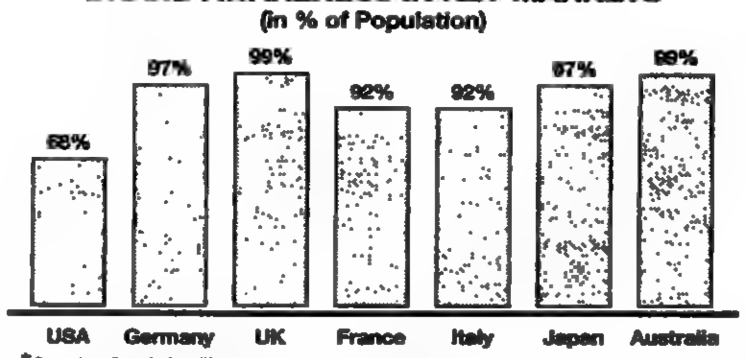
And so today the company finds itself, like its top endorsed stars, in good shape.

But what of the future? Well, the opportunity facing the company cannot be overstated.

The global sports market is simply vast. The sports footwear market alone now stands at approximately $15bn per annum. Astonishingly, Puma's share of the worldwide market stands at just 4%.

The opportunity for growth for a sports company with the tradition and rich international heritage of Puma is there for all to see.

BRAND AWARENESS IN KEY MARKETS* (in % of Population)



*Sporting Goods Intelligence, own surveys (1991-1995)

For, while market share in the US is minimal, brand awareness is surprisingly high. No less than 68% of the population profess recognition of the Puma brand. An impressive figure but noticeably less than the 90% brand recognition that Puma enjoys in many international markets. The widely contrasting figures attributed to market share and brand can only be seen as an opportunity for growth and must not be missed.

So just how can the company exploit this opportunity? What, in essence, are the tools for success?

Historically, Puma has been at the forefront of new technologies. Witness the introduction of the sole and shaft vulcanisation technology in the late '50s. The development of Velcro fastening in the '60s and the 'Trinomic' sports shoe mid-sole technology and Puma Disc system in the '80s and '90s.

Only by constantly pushing for technological leadership can Puma continually fulfil its mission statement. Hence the arrival of the latest technology. Puma Cell.

A lighter, more durable, performance based technology. Other leading manufacturers are also working on new technologies. But, according to the Wall Street Journal,* no less, Puma have once again got there first.

> By JOSEPH PEREIRA
> Staff Reporter of THE WALL STREET JOURNAL
> Puma AG has begun shipping a foam-less athletic shoe, beating to market a host of bigger rivals with a technology on which the footwear industry plans its next generation of sneakers.

Of course, on the pitch, our endorsed stars continue to shine. Diego Maradona and Lothar Matthaus have both lifted the World Cup. And they both wear Puma boots.

On the track Jonathan Edwards, Linford Christie, Heike Drechsler, Merlene Ottey and Colin Jackson all wear Puma. Between them they have won 39 Olympic and World Championship medals. No fewer than nine of which were gold. And we all know that gold is good for the bank balance.

Very good, indeed.

PUMA

COMPANIES AND FINANCE: UK

Emap in talks to sell regional newspapers

By Raymond Snoddy and Christopher Price

Emap, the publishing, exhibition and commercial radio group, is believed to be in talks for the possible sale of its regional newspaper interests.

The move is the latest in a flurry of mergers and acquisitions in the regional newspaper industry and follows several approaches to Emap.

If concluded, the deal is likely to raise about £200m ($304m) for the company.

If the group decides to sell it would mark a significant break with the past. Emap – formerly East Midlands Allied Press – was once a family owned company devoted entirely to local newspapers, before diversifying into magazines and more recently into commercial radio. It is now the second largest commercial radio operator in the UK behind Capital.

Sale negotiations are understood to be at an advanced stage, although far from completed.

Speculation over potential purchasers for the Emap subsidiary include Johnston Press, the fast expanding regional newspaper group, with the possibility of a joint bid with Newsquest, the former Reed regional newspaper group. Northcliffe Newspapers, owned by the Daily Mail & General Trust, is also considered a possible purchaser.

Emap's newspaper operations, which account for about 3 per cent of the regional market, made an operating profit of £9.3m on turnover of £96m in the year to end-March 1996.

The group will announce its final results on Tuesday when it is expected to unveil pre-tax profits of about £85m and clarify the position over the future of its regional titles.

However, the move is likely to delight the City, where some investors have been concerned about Emap's debt position following its recent acquisitions.

The latest acquisition, the purchase of a set of French consumer magazines for £142m in March, took gearing to 500 per cent, although interest cover remained a more comfortable seven times.

The sale would mark another shift in the ownership of the UK regional newspaper market, which is being increasingly abandoned by many large media groups who are being supplanted by fast-growing local newspaper concerns.

Thomson Corporation sold most of its newspaper interests to Trinity International, owner of the Liverpool Echo newspaper last year, while Newsquest, a management buy-out team, funded by US financiers Kohlberg Kravis Roberts, bought the regional newspaper interests of Reed Elsevier.

United Utilities lifts dividend

By Jane Martinson

United Utilities yesterday sought to prove its success as the UK's first multi-utility with a jump in dividend and pre-tax profits up to expectations.

The results provided the opportunity to explain how cost savings were better than expected since its formation via North West Water's takeover of Norweb in November.

Mr Brian Staples, chief executive, said: "We are actually the only proven example [of a multi-utility]. These results should answer the question: does it work or is it an act of our imagination?"

The shares fell 13p to 584 on the news, however.

The dividend level set this year was important as a base for further growth "in excess of 11 per cent", regulatory and political changes permitting. The company had predicted real growth of 7 per cent per annum in its offer document for Norweb.

The total dividend jumped 28 per cent to 32.7p (25.6p) after a special dividend of 3.8p, announced last year.

A £123.8m charge, which included a £103.8m provision for integration costs, dented pre-tax profits, which fell 4 per cent to £272.6m (£284m).

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Abi Leisure	6 mths to Feb 29	42.8	(42.1)	1.82	(1.81)	3.6†	(4.2)	1.42	July 5	1.42	-	4.35
Bett Bros	6 mths to Feb 29	14	(15.2)	1.73	(3.01)	8.69	(13.44)	1.76	July 15	1.75	-	5.4
David Glass Φ	Yr to Mar 31	1.33	(1.04)	0.574	(0.121)	7.37†	(1.69)	2	Aug 16	-	2	-
LBMS §	Yr to Apr 30	25.9	(23.8)	0.539L	(5.25L♠)	2.31L†	(24.7L)	nil	-	nil	nil	nil
London Intl	Yr to Mar 31	309.6	(318.1)	26.2	(15.2♥)	5.76†	(4.02)	1.5	Aug 23	1	2	1
M&G	6 mths to Mar 31	70.4	(61.5)	31.2♠	(26.5♠)	28.8	(25)	16	July 19	14	-	32
Mid Kent	Yr to Mar 31 ★	41.4	(37)	12.3	(8.31)	58.7	(37.3)	17.75	July 24	7.3	24	12.6
Raglan Props	Yr to Mar 31	28	(19.8)	2.37♠	(5.65♥)	1.22†	(3.33)	1.1	Aug 28	1	1.1	1
Ransomes	6 mths to Mar 30	102.9	(93.5)	6.72♠	(4.99♠)	3†	(1.9)	0.5	Sept 2	nil	-	nil
South West Water	Yr to Mar 31	314.4	(286.2)	109.1	(83.2♠)	77.7	(43.7)	20.7	Oct 1	18.2	30.5	27.3
Sperati (CA)	6 mths to Apr 30	0.481	(0.56)	0.034	(0.053)	23.8	(38.4)	nil	-	nil	nil	nil
Triad	Yr to Mar 31	11.7	(6.7)	2.1♠	(1.06)	5.86	(-)	-	-	-	-	-
United Utilities	Yr to Mar 31	1,839	(1,012)	272.6♠	(284♠)	51.7	(69.2)	23.39‡	Oct 1	17.2	32.66	25.55
Warner Estate	6 mths to Mar 31	7.23	(6.93)	4.86	(3.9)	7.87	(5.88)	4	Oct 4	3.85	-	11.75
Wernford Invs	Yr to Dec 31	11.4	(11.1)	7.11	(6.6)	12.84	(11.57)	5	Oct 7	5	7.75	7.75

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Edinburgh New Tiger	6 mths to Apr 30	35.2	(30.83)	0.739	(0.605)	0.284	(0.218)	-	-	-	-	0.4
Fleming Growth	6 mths to Mar 31	154.4	(123.1)	0.651	(0.579)	1.42	(1.26)	1.1	July 10	1	-	3.1
F&C Pep	6 mths to Mar 31	137.7	(120.4)	1.05	(1.07)	1.83	(1.98)	1.65	July 3	1.5	-	3.85
Guinness Flight	6 mths to Apr 30	106.6	(-)	0.806	(-)	4.03	(-)	1.75♦	June 28	-	-	-
Northern Ventures	33 wks to Mar 31	94.7	(95#)	0.174	(-)	1.2	(-)	-¶	-	-	-	-

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ΦAim stock. §USM stock. ★Comparatives restated. ‡Includes 3.8p special. ♦Second interim; makes 3p to date. #Opening value. ¶Interim of 0.75p indicatedfor payment on June 28.

Hypobank seeks HFCM control

By George Graham, Banking Correspondent

Bayerische Hypotheken-und Wechsel-Bank, the fifth largest German private bank, is seeking to increase its 50 per cent stake in Hypo Foreign & Colonial Management, fund manager for Foreign & Colonial Investment Trust and a range of other trusts and pension funds.

The five Foreign & Colonial investment trusts, which now own the remaining 50 per cent of the management company, said yesterday that Hypobank had advised them of its interest in taking control.

HFCM is formally valued in the investment trusts' accounts at £163m, but that figure was regarded as conservative even before it doubled its assets under management earlier this year with the acquisition of ESN, which manages £15bn of electricity industry pension funds.

Some analysts suggested any deal, which is not likely to be struck for at least three months, might value HFCM at more than £500m.

It was once usual for investment trusts to own their fund management companies, but many trusts have moved away from this model. The five F&C trusts themselves took a first step in this direction when they sold a 50 per cent stake to Hypobank in 1989.

HFCM has diversified into unit trusts and other investment products. Hypobank distributes these in Germany, and its clients now account for more than a third of assets under management – excluding the ESN pension money.

But even on a formal valuation, the management company still represented a £50m investment for Foreign & Colonial Investment Trust, the oldest and largest trust in the group. A full valuation would probably make it the trust's largest single investment.

Hypobank is estimated to have about DM24bn ($15.7bn) in funds under management, including the HCM financial consultancy.

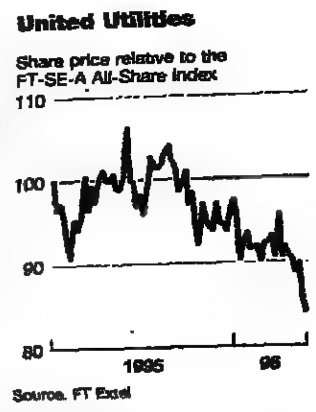
LEX COMMENT

Utd Utilities

At first sight, the stock market's treatment of United Utilities should be a horrible cautionary tale for multi-utility enthusiasts. Certainly, yesterday's drop in the share price looks a churlish reaction to a respectable set of results. This is a company committed to annual dividend growth of 11 per cent in real terms. What, then, explains its 80 per cent prospective yield premium to the market? One reason is that yields do not tell the whole story. Cost savings from acquiring Norweb may help produce handsome dividend growth up to the next regulatory review – but after that, the best of the party will be over. Since the other water companies are in the same boat, however, this hardly justifies United's discount to the sector.

United Utilities

Share price relative to the FT-SE-A All-Share Index



Source: FT Extel

Pinning the blame on United's multi-utility strategy looks equally implausible – not least because Hyder, Britain's other multi-utility, trades on a less lowly rating. And so far, the cost-cutting news from United's acquisition of Norweb has been good: if anything, the problem is not that the multi-utility is not working, but that United paid so much to create it.

However, there are more mundane reasons why United is out of fashion. First, it is one of the the sector's least likely bid targets. And since it borrowed so much to buy Norweb, investors are inevitably looking elsewhere for lavish buy-backs. Up to a point, investors are right: the sector boasts bigger bargains.

But United is still trading at a significant discount to fundamental measures of its value, such as discounted cash flow. Long-term investors should buck the trend and buy.

NEWS DIGEST

Ammunition for South West

South West Water yesterday brought out its ammunition in its fight against two rival bids with higher-than-expected profits and its first customer rebate.

Mr Keith Court, chairman, said the bids by Severn Trent and Wessex Water remained "unsolicited and unwelcome". "We have climbed the Eiger and gone through the travails of the first five or six years...Now after achieving benefits for employees, customers and shareholders, we don't find the attention from outside welcome." The Monopolies and Mergers Commission, which is investigating the bids, is expected to report in September.

Pre-tax profits rose 11 per cent from a pre-exceptional £98.7m to £109.1m in the year to March 31. This was helped by efficiency savings in the core utility, growth in the non-regulated businesses and a pension fund holiday.

The previous year's profits were hit by a £35.5m restructuring charge, mainly to cover 500 job cuts.

The dividend rises by almost 12 per cent as the company announced that customers and shareholders would be "sharing the outcome of the improved performance". A 20.7p final lifts the total to 30.5p, well ahead of expectations. Sales rose 10 per cent to £314.4m (£286.2m), helped by non-core businesses.

The regulated utility business saw only a slight improvement in sales to £239.3m (236.7m) after the effect of the £6.9m customer rebate charge. This was offset by a £7.5m gain from a released restructuring provision.

As part of a "customers first" plan the group also confirmed that it would suspend domestic disconnections and had established a special assistance fund. South West has had the highest water and sewerage charges in the country. *Jane Martinson*

Doubled pay-out at Mid Kent

Mid Kent Holdings, the water supply company under siege from a takeover bid launched by neighbouring utilities, yesterday almost doubled its full-year dividend and lifted pre-tax profits 48 per cent to £12.3m ($18.7m).

The total dividend jumped from 12.6p to 24p, after an increase in the final to 17.75p (7.3p). The company said it aimed to maintain a progressive dividend growth of perhaps 4 per cent real from this base.

The results, which were better than expected, helped lift the shares, which bucked the sector trend with a 33p rise to 488p.

Mr Geoff Baldwin, chief executive, said that the results had chiefly come from operating efficiencies and had nothing to do with the bid.

"In previous statements we have not been sure when the benefits were going to hit. Now they have hit we thought it was about time some benefits went to shareholders," he said. He added that he was "pleased with the timing".

The joint bid by Saur and General Utilities, two French companies which own neighbouring water supply companies in south-east England and which each have a 19.5 per cent stake in Mid Kent, was referred to the Monopolies and Mergers Commission last week.

Jane Martinson

Restructuring bears fruit at LIG

London International Group, the condoms and surgical gloves manufacturer which nearly collapsed two years ago, yesterday announced a 72 per cent rise in annual pre-tax profits.

The group, which is half-way through a three-year restructuring programme, made pre-tax profits in the year to March 31 of £26.2m ($39.8m), up from £15.2m the previous year which included exceptional charges of £2.8m. Turnover from continuing operations rose 11 per cent to £309.6m, after strong sales growth at each of its three divisions.

A new management team including Mr Nick Hodges, chief executive, and Mr James Tyrrell, finance director, was appointed in 1993 after the group's unsuccessful diversification strategy in the 1980s. Mr Hodges said the group was well on track to meet the targets set in 1994 of raising margins to 15 per cent and pre-tax profits to £40m in three years.

Sales of surgical gloves increased 18 per cent to £59.4m (£51.4m), buoyed by strong US demand for powder-free gloves. Earlier this month, the group acquired Aladan, an Alabama-based manufacturer of examination gloves, for £45.7m.

Condom sales expanded 15 per cent to £117m (£100m) with the strongest growth coming from southern Europe and North America.

Geoff Dyer

Tomkins' shares rise on upbeat statement

By Patrick Harverson

The recent decline in Tomkins' share price was partly reversed yesterday after the industrial conglomerate released an upbeat trading statement and reassured investors that its £927m ($1.41bn) takeover of Gates, the privately-owned US automotive and industrial components group, would be completed soon.

The news lifted Tomkins' share price – which has underperformed the stock market by 12.5 per cent this year – by 9p to 256p.

"The statement reassures the market that the underlying businesses are performing relatively well and that the Gates deal is still on," said one analyst.

Tomkins' shares had fallen on concerns that the delays in completing the acquisition, which was announced in January, might have meant the deal had run into trouble.

However, yesterday the group said completion was taking longer than expected because of the requirement that it gain approval from a large number of North American and European regulatory authorities.

Mr Greg Hutchings, chairman, said: "The deal was signed and sealed in January but we have to submit it to all these different authorities. These things take time." He hoped the regulatory approvals would be sewn up by "late spring or early summer".

He said the takeover was a complex one from a regulatory point of view because it was the first time a British public company had acquired a private US company in a transaction financed entirely by equity. Tomkins is financing the deal with two issues of convertible stock.

The group also issued a trading statement which included a forecast that pre-tax profits in the year to April 27 would be more than £320m (£303m).

Although that was at the lower end of expectations, Tomkins' forecast of a 15 per cent rise in its total dividend to 9.95p pleased analysts.

COMMODITIES AND AGRICULTURE

Globalisation picks up pace in the mining sector

By Kenneth Gooding, Mining Correspondent

Globalisation of the mining industry is moving ahead at an unprecedented pace and the past year set records for both the number of big deals in the industry and the value of those deals: US$20bn.

But, in spite of the hectic scrambling by other mining companies intent on becoming fully international, Anglo American Corporation of South Africa retained its place as the world's biggest mining group.

According to the latest Who owns Who in Mining, Anglo's share of global non-fuels minerals production outside the former eastern bloc countries, by value, was 8.51 per cent, well ahead of RTZ-CRA, the Anglo-Australian group, with a 5.44 per cent share.

Although Anglo's share has gradually slipped since the mid-1980s, mainly because of its falling share of global gold output, Anglo companies are the western world's leading producers of gold, diamonds, platinum group metals, chromite, vanadium and antimony. It is third in cobalt, manganese and niobium, fourth in nickel and ninth in copper, according to the analysis by Raw Materials Group of Sweden.

Anglo is on the offensive, RMG points out. It has set up a $1bn credit line, "indicating it is now ready for international battles after having settled some of its internal restructuring in South Africa," and has made "a push into crumbling Lonrho," the UK-based conglomerate, which intends to demerge its mining activities.

RMG's analysis of industry changes in the year to the end of May also reveals that state owned mining assets are being disposed of at a rapid rate – another trend helping to contribute to the globalisation process.

RMG says that more than $3.2bn was collected by governments outside the former eastern bloc as they sold off mining assets in the past year. That was nearly double the amount for the previous 12 months.

It suggests changes in the state sector's share are likely to take place only gradually from now on, "partly because of the slow pace of new privatisation and partly because of the increase in state controlled production in other countries such as Iran and Botswana."

Each of the four biggest private sector deals in the past year involved more than $2bn compared with the biggest in the previous 12 months – the $1.6bn Barrick Gold paid for Lac Minerals. That deal moved Barrick up the table from 30th to 9th place.

The "big four" deals – Battle Mountain Gold's merger with Hemlo; Inco's acquisition of Diamond Fields Resources; BHP's acquisition of Magma Copper; and RTZ's full merger with its associate CRA – illustrate some of the important characteristics of the recent reshaping of the mining industry, RMG suggests.

It says the industry is in "an intensive phase of transformation" fueled by the good profits it has made in recent years. There is a focus on North American companies, both as buyers and targets. Australian companies are transforming themselves into transnational groups. European companies, apart from RTZ, are lagging their peers.

Other big changes in the rankings include a move from 36th to 26th position by Normandy, the Australian group that acquired a substantial chunk of BRGM, the state owned French group. Another Australian, MIM, dropped from 11th to 22nd position because of a change in the way it was classified by RMG.

While Europe's share of global mining is eroding fast, Japan's has faded almost completely. Mitsui was the only Japanese group in the top 50.

Who owns Who in Mining 1996, £330 or US$460 from Roskill Information Services, 2 Clapham Road, London SW9 0JA.

Top 25 Western World Mining Companies in 1994
Ranked by mine production of non-fuel minerals

Company or state	Rank (1993)	Country	% of total value
Anglo American	1 (1)	South Africa	8.51
RTZ/CRA	2 (2)	UK	5.44
State of Brazil (mainly CVRD)	3 (3)	Brazil	2.94
BHP	4 (4)	Australia	2.82
State of Chile (Codelco and Enami)	5 (5)	Chile	2.36
Gencor	6 (6)	South Africa	1.88
State of Malaysia	7 (9)	Malaysia	1.39
Freeport McMoRan	8 (7)	US	1.33
Barrick Gold	9 (30)	Canada	1.27
Phelps Dodge	10 (13)	US	1.24
Western Mining	11 (14)	Australia	1.15
Brascan/Noranda	12 (12)	Canada	1.12
Asarco	13 (16)	US	1.09
Inco	14 (17)	Canada	1.09
State of Morocco	15 (8)	Morocco	0.98
Cyprus Amax Minerals	16 (21)	US	0.97
Placer Dome	17 (18)	Canada	0.95
Cia Auxiliar de Empresas de Mineracao	18 (19)	Brazil	0.90
Rembrandt Group	19 (25)	South Africa	0.84
Teck	20 (–)	Canada	0.83
State of India	21 (20)	India	0.77
MIM Holdings	22 (11)	Australia	0.77
Newmont Mining	23 (24)	US	0.72
Iscor	24 (22)	South Africa	0.71
Homestake Mining	25 (23)	US	0.70

Source: Who owns Who in Mining 1996

Bolivian mine waste has a silver lining

Sally Bowen on an innovative and profitable solution to an environmental problem

In most countries with centuries of mining tradition *tailings dumps are a familiar* and unsightly blot on the landscape. Often they are health hazards, contaminating water sources and threatening to slip down hillsides. Cleaning them up is prohibitively expensive, especially for developing countries.

The Itos tailings dump in Bolivia is one such. Squatting ominously on a hill outside the long-established mining town of Oruro is a huge black, 1.8m-tonne mass of evil-smelling tailings. Rain, time and gravity have carried part of the noisome sludge some two miles down the valley, where the town council plans to build new residential housing.

Fortunately for Oruro, the Itos tailings dump has substantial commercial value. Over the next ten years a joint venture masterminded by a metallurgical genius from the US and a Dutch minerals trader long resident in Bolivia will clear the dump, extract the remaining value and store the waste in an environmentally irreproachable tailings dam. The innovative hot chloride leach operation, meanwhile, is the first in the world to recover any base or precious metal on a commercial scale.

Baremsa, a Bolivian company in which Barex minerals trading partnership and Kappes Cassidy of Reno, Nevada have a 90 per cent stake, has signed a 10-year lease with Bolivia's state mining corporation Comibol to treat the Itos tailings. The dump is the result of some seventy years of processing of lead-silver ore from the San Jose and Itos mines. Both the mines and the flotation plant, close to Oruro, were shut down in 1992.

The tailings still contain an average of 220 grams per tonne of silver (around half the original content) as well as significant quantities of antimony *and lead.*

Extensive tests between 1992 and 1993 at Kappes Cassidy's Reno laboratories indicated that more than 85 per cent of the tailings' silver content could be recovered by hot chloride leaching, a significant improvement on Comibol's mid-1980s attempts to leach with a cold chloride solution. Cyanide recovers only 40 per cent of the silver and consumption is uneconomically high.

The Kappes Cassidy solution looks financially attractive. With its own on-site hydrochlo*ric acid plant (not yet function*ing) Baremsa predicts operating costs of under $23 per tonne and cash flow in excess of $3m a year for the next decade after financial costs and depreciation. Investment to date has totalled $10.5m.

Plant construction was completed a year ago and trial runs commenced in October. Baremsa's Dutch-born president Mr Hans Tordoir was expecting the first metal to be poured before the end of April with the first shipment of dore bullion to Johnson Matthey of England in May.

The plant itself is a gleaming and spotless *tribute to modern tech*nology. All process solutions and liquid streams are recycled and the minute quantities of gases and vapours generated are scrubbed to remove contaminants before discharge.

"No plant like this has ever been built on a commercial scale, so it takes some time to streamline procedures," says Mr Tordoir. "But the technology is known, and Dan Kappes' reputation is enormous. We're confident it's a very interesting project, both economically and environmentally."

In Bolivia, as in many other developing countries, environmental legislation is in its infancy: few miners or industrialists bother to comply with the basic regulations that have been promulgated.

This makes Mr Tordoir, who began his career with Billiton before becoming a trader with Philipp Brothers, something of an environment freak in his adopted land. His brother, however, is head of Shell environment technology "so it sits in the education of the family", he explains.

Mr Kappes, president of Kappes Cassidy, is more reluctant to be tagged an environmentalist. "Exaggerated envi*ronmental legislation has* virtually killed off the mining industry in the States," he says. "You can go too far."

But no environmental corners have been cut on the Itos project. The new tailings dam down the valley will be covered with soil and revegetated, as has been done with heap leaches in Nevada. Within five years, there should be no perceptible difference between the dam and the existing terrain.

Baremsa has imported geomembrane at $4.50 per square *metre to line the tailings pond,* adding around $1 per tonne to total operating costs. "You could do the project legally without this, but you couldn't do it responsibly," says Mr Tordoir, who personally collects samples from wells drilled below the dam to check the quality of run-off water.

Comibol's participation in the project is, meanwhile, reduced to collecting a royalty, variable in accordance with international metals prices and output. The partners say negotiations with the dramatically down-sized state mining company have been trouble-free throughout.

If Itos proves as big an economic success as the figures indicate, Comibol has plenty more tailings dumps to offer to investors. ITEC of Canada has already spent some $2m on developing the commercial technology for re-processing the tin-silver-zinc tailings of San Miguel. Financing has been obtained in principle from local brokerage Saxxon (part of the Socimer finance group of Switzerland) and could top $24m if the consortium takes the final decision to go ahead.

'In situ' copper leaching to be tested in Michigan

By Kenneth Gooding

A second pilot scale testing scheme is to begin in the US of a technique that may eventually provide the mining industry with substantial additional sources of low cost copper and other metals. Inmet of Canada has been given approval by Michigan's Department of Environmental Quality for a US$10m "in situ" or "in place" mining project at its Copper Range in the state's Upper Peninsula.

The method, also being tested by Asarco in Arizona, involves injecting an ore body with a dilute solution of sulphuric acid to leach out the metal. Inmet hopes to extend the life of a 44 year old mine that was closed in 1995 because it was not viable when conventional mining techniques were used. The company wrote off C$245m because of the closure.

A three-year pilot project will begin this year and, if this is successful, Inmet hopes to recover 900m lb of copper over 15 years.

The mine is near Lake Superior and Inmet has agreed to make provisions to protect groundwater and to establish a $1m letter of credit to ensure funding is available for the mine's containment system.

Export tax angers tobacco growers

By Tony Hawkins in Harare

Zimbabwe yesterday doubled the proposed tax on tobacco auction floor sales and exports to 10 per cent from the 5 per cent originally mooted.

Backbench members of President Robert Mugabe's ruling ZANU-PF party overturned a ministry of finance proposal to split the turnover tax between growers (2 per cent) and buyers (3 per cent), deciding instead to double the tax to 10 per – with both growers and buyers being required to pay 5 per cent each.

Tobacco prices this year are more than 50 per cent higher than a year ago, averaging over 290 US cents a kilogram compared with 186 US cents at the same stage in 1995. With the seasonal price expected to average over 300 cents a kilogram the 200m kg crop will be worth some $600m. So the tax will bring in about $60m making it the sixth largest source of revenue after corporate and personal income taxes, sales tax, and customs and excise duties.

The Zimbabwe Tobacco Association reacted angrily, describing the tax increase as "a great shock to the industry".

It accused MPs "who do not understand economic fundamentals" of "petty spite", adding that no government that was serious about seeking economic growth would tax exports in this way. While the industry might be able to absorb such a tax in the current year when tobacco prices were close to record levels, the impact on the industry could be "devastating" when the price pendulum swung the other way.

The tax increase comes just a week after President Mugabe promised closer ties and consultation with private enterprise in Zimbabwe. The ZTA said it was not consulted about the tax and suggested that the much-vaunted new era of "constructive engagement" between business and government had got off to a poor start.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1572.5-73.5	1603-4
Previous	1556.5-57.5	1588-89
High/low		1607/1600
AM Official	1570-70.5	1601-602
Kerb close		1599-600
Open int.	224,813	
Total daily turnover	38,058	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1295-305	1335-40
Previous	1285-95	1325-30
High/low		1340/1332.5
AM Official	1290-95	1330-35
Kerb close		1335-45
Open int.	4,749	
Total daily turnover	1,867	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	829.5-30.5	833-34
Previous	825.5-26.5	829-30
High/low	830	838/833
AM Official	829.5-30.0	833-33.5
Kerb close		834-35
Open int.	35,617	
Total daily turnover	4,790	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	7980-90	8095-100
Previous	8025-35	8135-40
High/low	7965/7945	8150/8080
AM Official	7945-46	8075-80
Kerb close		8110-20
Open int.	43,621	
Total daily turnover	13,092	

■ TIN ($ per tonne)

	Cash	3 mths
Close	6295-305	6320-30
Previous	6215-25	6255-60
High/low	6300	6350/6320
AM Official	6295-300	6315-20
Kerb close		6320-25
Open int.	17,639	
Total daily turnover	2,920	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1020-21	1046-47
Previous	1015.5-16.5	1042.5-43.0
High/low	1021/1020.5	1049/1045
AM Official	1020.5-21.0	1047-47.5
Kerb close		1046-47
Open int.	73,972	
Total daily turnover	16,685	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2566-70	2464-65
Previous	2555-58	2445-46
High/low	2586/2583	2493/2453
AM Official	2585-86	2475-77
Kerb close		2460-58
Open int.	187,393	
Total daily turnover	63,599	

■ LME AM Official £/$ rate: 1.5373
LME Closing £/$ rate: 1.5390

Spot: 1.5345 3 mths: 1.5324 6 mths: 1.5309 9 mths: 1.5296

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
May	119.75	–	122.30	119.50	717	533
Jun	117.55	-2.10	119.50	117.30	383	3,707
Jul	115.50	-0.70	116.70	114.50	4,119	14,875
Aug	113.60	-0.60	113.70	113.70	19	858
Sep	111.70	-0.60	112.50	110.80	970	6,379
Oct	110.60	-0.60	109.80	108.70	36	675
Total					7,055	40,145

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	391.10-391.60		
Opening	391.20-391.70		
Morning fix	391.55	254.866	491.983
Afternoon fix	391.30	254.952	492.138
Day's High	391.60-392.10		
Day's Low	390.60-391.10		
Previous close	391.10-391.50		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.66	6 months	4.38
2 months	4.59	12 months	4.07
3 months	4.50		

Silver Fix	p/troy oz.	US cts equiv
Spot	347.60	533.75
3 months	352.20	540.10
6 months	356.70	546.35
1 year	366.30	560.00

Gold Coins	$ price	£ equiv.
Krugerrand	392-395	255-257
Maple Leaf	401.90-404.45	
New Sovereign	92-95	60-62

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	390.5	-0.7	391.6	390.2	25,995	27,980
Jul	392.2	-0.5	–	–	–	–
Aug	394.0	-0.4	394.9	393.5	27,305	75,340
Oct	397.0	-0.4	398.0	396.8	180	6,070
Dec	400.0	-0.3	401.1	399.5	3,262	38,011
Feb	402.8	-0.2	403.2	403.2	20	8,542
Total					56,877	201,249

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	402.5	+1.1	403.0	401.5	1,371	20,206
Oct	405.3	+1.1	406.0	406.0	168	5,078
Jan	408.8	+1.1	409.5	409.5	187	1,026
Apr	411.8	+1.1	412.0	411.0	39	1,564
Total					1,876	27,872

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	132.70	+0.70	133.50	132.00	461	1,723
Sep	133.20	+0.45	134.00	132.75	708	8,277
Dec	134.30	+0.45	134.75	134.50	15	848
Total					1,182	8,848

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
May	531.1	–	534.0	530.0	82	43
Jun	532.0	+0.9	532.0	532.0	1	3
Jul	534.3	+0.8	536.5	530.5	12,2[illegible]	64,3[illegible]
Sep	539.8	+0.9	542.0	538.5	1,268	15,854
Dec	547.8	+1.1	550.0	545.5	418	10,069
Mar	555.8	+1.2	555.0	555.0	356	4,050
Total					14,[illegible]	102,185

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	20.10	-0.66	20.74	19.93	42,936	86,200
Aug	19.41	-0.52	19.92	19.25	17,031	49,463
Sep	18.87	-0.42	19.32	18.80	6,381	37,458
Oct	18.50	-0.36	18.80	18.50	4,584	24,904
Nov	18.30	-0.30	18.59	18.25	2,618	19,824
Dec	18.10	-0.30	18.40	18.00	2,419	33,290
Total					80,011	383,628

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	18.03	-0.60	18.50	18.03	21,570	88,243
Aug	17.66	-0.47	18.07	17.66	10,193	38,887
Sep	17.41	-0.34	17.75	17.41	2,963	14,707
Oct	17.40	-0.09	17.49	17.40	1,954	13,749
Nov	17.22	-0.09	17.30	17.22	812	5,376
Dec	17.02	-0.12	17.14	17.02	827	11,681
Total					40,655	178,571

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	52.40	-1.66	54.05	52.10	6,580	7,536
Jul	51.70	-1.37	53.10	51.40	8,626	22,188
Aug	51.70	-1.12	52.65	51.55	2,673	14,558
Sep	52.00	-1.02	52.95	51.80	386	9,371
Oct	52.65	-0.82	53.45	52.65	48	4,857
Nov	53.10	-0.87	53.75	53.10	404	5,985
Total					19,606	98,976

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	165.75	-0.75	166.25	164.75	6,712	13,449
Jul	161.75	-1.50	163.00	161.75	2,995	11,331
Aug	161.05	-1.75	161.75	161.00	909	7,621
Sep	161.75	-1.25	162.00	161.50	230	4,916
Oct	162.00	-1.50	162.25	162.00	113	1,943
Nov	162.25	-1.50	162.50	162.25	87	1,455
Total					11,146	52,300

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	2.395	-0.047	2.455	2.385	11,488	34,121
Aug	2.430	-0.039	2.475	2.425	4,844	20,415
Sep	2.405	-0.026	2.440	2.395	1,938	16,963
Oct	2.385	-0.016	2.415	2.370	1,771	13,505
Nov	2.405	+0.028	2.420	2.400	1,053	9,718
Dec	2.480	+0.030	2.495	2.475	1,437	11,907
Total					26,554	144,088

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	60.70	-1.66	62.40	60.30	14,649	9,684
Jul	60.35	-1.39	61.85	59.90	11,698	22,018
Aug	59.25	-1.05	60.25	58.90	3,097	13,899
Sep	57.80	-0.70	58.35	57.60	594	4,213
Oct	55.10	-0.35	55.50	55.10	169	1,648
Nov	53.80	–	54.15	53.80	123	1,122
Total					30,396	54,920

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	128.00	-2.25	128.50	127.50	98	1,558
Sep	112.00	-1.00	113.50	113.00	–	380
Nov	114.15	-0.60	114.10	113.80	153	2,972
Jan	116.00	-0.75	115.75	115.55	21	895
Mar	118.25	-0.75	118.00	118.90	–	205
May	120.00	-1.00	121.00	121.00	–	87
Total					272	6,197

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	528.25	+0.25	530.00	518.50	18,705	48,499
Sep	530.50	+1.75	531.00	520.00	3,087	17,725
Dec	535.00	+2.25	538.00	523.00	4,888	19,595
Mar	533.50	+4.50	535.00	528.75	703	2,267
May	490.00	+14.00	492.00	475.00	65	151
Jul	433.50	+6.75	438.00	424.00	172	1,803
Total					25,810	89,969

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	472.75	+8.25	473.50	460.50	24,979	134,532
Sep	392.50	-8.00	399.00	385.50	8,866	68,904
Dec	347.50	-4.00	352.75	342.50	38,864	156,990
Mar	353.50	-3.75	358.00	348.50	3,531	18,949
May	356.25	-2.00	360.00	353.00	600	3,520
Jul	356.00	-2.75	358.00	352.00	628	4,068
Total					78,146	389,081

■ BARLEY LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	105.50	-1.00	–	–	–	63
Nov	109.00	-0.05	107.50	107.50	4	692
Jan	110.90	–	–	–	11	135
Mar	114.00	–	–	–	–	41
May	116.25	–	–	–	–	–
Total					4	985

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	786.50	+11.50	787.00	771.50	41,177	63,878
Aug	783.25	+9.25	784.00	770.50	4,460	14,[illegible]
Sep	766.75	+8.25	768.00	760.00	1,520	6,607
Nov	756.00	+4.00	758.00	749.50	43,176	85,519
Jan	763.00	+4.75	764.50	757.50	821	7,225
Mar	770.50	+7.00	771.00	767.50	101	3,047
Total					92,607	188,900

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	26.80	+0.16	26.90	26.62	15,382	42,626
Aug	27.00	+0.17	27.05	26.81	2,105	12,382
Sep	27.15	+0.15	27.20	27.00	1,158	5,042
Oct	27.27	+0.12	27.35	27.15	1,006	4,990
Dec	27.55	+0.16	27.65	27.35	2,593	20,520
Jan	27.80	+0.15	27.85	27.42	52	1,[illegible]
Total					22,388	98,518

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	238.9	+[illegible]	239.0	235.5	27,153	47,624
Aug	239.1	+2.9	239.3	236.2	4,215	11,782
Sep	237.8	+2.8	237.8	235.5	1,046	7,407
Oct	235.0	+2.2	235.5	233.4	550	3,850
Dec	234.7	+2.3	235.0	232.7	5,917	20,453
Jan	235.5	+2.4	235.2	233.6	104	1,760
Total					38,457	89,064

■ POTATOES LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	225.0	–	–	–	–	–
Nov	82.5	–	–	–	–	–
Mar	110.0	–	–	–	–	–
Apr	124.3	+2.8	128.0	120.5	107	1,147
May	136.0	+1.0	–	–	–	1
Total					107	1,148

■ FREIGHT (BIFFEX) LCE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
May	1358	-5	1359	1355	31	569
Jun	1244	-6	1246	1235	31	573
Jul	1213	+1	1215	1205	112	2,097
Oct	1326	-4	1333	1310	69	1,307
Jan	1333	-12	1345	1345	75	62
Apr	1340	-20	1350	1350	50	32
Total					368	4,653

	Close	Prev
BFI	1343	1368

FUTURES DATA
All futures data supplied by CMS.

Wool
Prices in Australia were tested at auction this week for the first time since they rose sharply in mid-May. The first day's move was down, with the Eastern market indicator 7 cents lower at 588, and the Western indicator 15 cents lower at 543 cents. Next day the market was steadier, however, and the impression grew that much of the sharp price rise might in fact be held, with no return to earlier low points. The Australian week closed with the Eastern market indicator at 589 cents, and the Western indicator at 554, only slightly down compared with two weeks before. South African wool sold at prices which were higher for finer merinos, though not easy to measure in view of a small end-of-season offering and a return to currency volatility. The demand side of the wool situation improved only briefly as a result of Australia's mid-May price rise.

SOFTS

■ COCOA LCE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	1031	-44	1075	1069	37	29
Jul	1075	-25	1107	1078	3,853	20,274
Sep	1093	-26	1127	1096	1,183	45,994
Dec	1033	-18	1057	1035	841	30,653
Mar	1021	-19	1044	1025	3,085	25,065
May	1026	-21	1054	1030	381	19,966
Total					13,178	168,199

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1341	-30	1382	1338	2,746	26,533
Sep	1356	-30	1399	1356	748	20,035
Dec	1380	-31	1422	1380	488	17,780
Mar	1400	-24	1439	1399	63	13,506
May	1419	-22	1449	1443	20	6,046
Jul	1432	-22	–	–	–	5,630
Total					4,063	89,169

■ COCOA (ICCO) (SDR's/tonne)

May 29	Price	Prev. day
Daily	1056.85	1062.14

■ COFFEE LCE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	1862	-28	1875	1850	89	656
Jul	1805	-1	1825	1800	1,898	14,405
Sep	1783	-10	1802	1777	632	7,442
Nov	1773	-13	1792	1773	356	3,313
Jan	1746	-10	1770	1758	105	1,751
Mar	1718	-10	1745	1745	126	912
Total					3,266	28,628

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	115.85	-1.45	118.50	115.80	4,848	14,578
Sep	115.20	-1.30	117.60	115.10	987	6,645
Dec	113.86	-1.10	116.00	113.50	211	3,280
Mar	112.45	-1.00	112.50	112.10	81	987
May	111.25	-1.00	114.00	111.25	14	320
Total					6,083	28,880

■ COFFEE (ICO) (US cents/pound)

May 29	Price	Prev. day
Comp. daily	105.55	105.27
15 day average	110.33	110.76

■ WHITE SUGAR LCE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	375.3	+1.4	376.5	373.8	605	11,031
Oct	340.4	-0.7	341.8	340.0	612	5,888
Dec	329.9	-0.2	330.5	330.2	24	3,866
Mar	326.4	+0.2	327.0	325.8	178	3,544
May	325.4	+0.2	325.9	324.6	94	1,473
Aug	324.9	-2.3	326.5	324.6	10	555
Total					1,266	26,897

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	11.02	+0.07	11.15	10.98	11,558	57,910
Oct	10.51	-0.06	10.62	10.50	3,642	39,054
Mar	10.50	-0.06	10.61	10.48	2,820	29,588
May	10.45	-0.07	10.56	10.45	731	9,936
Jul	10.45	-0.03	10.52	10.40	602	7,633
Oct	10.38	-0.05	10.48	10.38	150	2,940
Total					19,503	147,501

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	78.40	-1.22	78.49	77.55	5,289	23,889
Oct	78.05	-1.70	79.40	78.05	1,205	4,632
Dec	77.82	-1.73	79.05	77.70	7,860	26,531
Mar	78.76	-1.84	79.95	78.76	1,039	4,189
May	79.67	-1.63	80.78	79.50	162	1,723
Jul	80.09	-1.91	81.20	79.90	28	693
Total					15,648	66,154

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	120.50	+0.80	121.25	118.60	702	11,446
Sep	119.40	+0.60	119.50	118.00	414	4,943
Nov	116.15	-0.95	116.75	116.20	75	1,529
Jan	114.55	-0.35	115.25	114.35	41	3,833
Mar	116.35	-0.25	116.25	116.25	17	263
May	117.55	-0.55	–	–	–	150
Total					1,235	22,180

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ REUTERS (Base: 18/9/31=100)

May 30	May 29	month ago	year ago
2116.7	2117.0	2110.6	2208.1

■ CRB Futures (Base: 1967=100)

May 29	May 28	month ago	year ago
253.87	255.63	-	243.45

■ GSCI Spot (Base: 1970=100)

May 29	May 28	month ago	year ago
207.10	209.19	214.75	181.96

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	60.500	-0.325	61.100	60.425	6,665	24,618
Aug	63.750	-0.175	64.200	63.625	5,676	30,472
Oct	65.025	+0.175	65.275	64.725	1,671	21,698
Dec	62.825	+0.2	63.075	62.500	999	11,061
Feb	62.250	+0.075	62.450	62.150	410	9,849
Apr	65.550	+0.075	65.600	65.400	120	2,469
Total					5,976	19,635

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	61.625	+0.35	62.200	60.425	2,535	9,552
Jul	57.725	+0.2	58.100	56.550	2,980	9,539
Aug	53.775	+0.375	53.950	52.500	1,837	4,076
Oct	48.850	-0.125	49.200	48.250	1,094	5,765
Dec	51.200	-0.4	51.500	50.800	605	5,779
Feb	71.350	-0.15	71.800	71.006	168	1,186
Total					9,369	39,710

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	88.725	-2	90.500	88.725	40	29
Jul	80.800	-2	80.800	80.800	1,081	5,881
Aug	78.375	-2	78.375	78.375	329	2,546
Feb	71.450	-0.15	71.900	69.900	214	631
Mar	72.050	-0.85	73.500	70.700	8	36
May	72.500	-1.9	72.650	72.500	11	52
Total					1,687	9,187

LONDON TRADED OPTIONS

Strike price $ tonne	Calls Jun	Calls Sep	Puts Jun	Puts Sep
■ ALUMINIUM (99.7%) LME	Jun	Sep	Jun	Sep
1500	89	120	5	18
1600	24	58	39	54
1700	3	23	117	117
■ COPPER (Grade A) LME	Jun	Sep	Jun	Sep
2400	129	103	27	81
2500	65	58	62	135
2600	27	23	124	206
■ COFFEE LCE	Jul	Sep	Jul	Sep
1900	32	110	127	227
1950	29	95	166	262
2000	26	83	208	300
■ COCOA LCE	Jul	Sep	Jul	Sep
875	200	222	-	4
900	175	198	-	6
925	150	178	-	10
■ BRENT CRUDE IPE	Jul	Aug	Jul	Aug
1850	-	35	38	-
1900	12	-	65	-
1950	5	-	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$16.67-6.77x	-0.490
Brent Blend (dated)	$18.07-8.13	-0.850
Brent Blend (July)	$17.97-7.98	-0.880
W.T.I.	$19.93-9.95x	-0.785

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$208-210	-6
Gas Oil	$169-172	-2
Heavy Fuel Oil	$83-85	-2.5
Naphtha	$187-190	-1.5
Jet fuel	$189-191	-3
Diesel	$170-171	-4.5

■ NATURAL GAS (Pence/therm)

Bacton (Jun)	11.00-11.30	+0.125

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

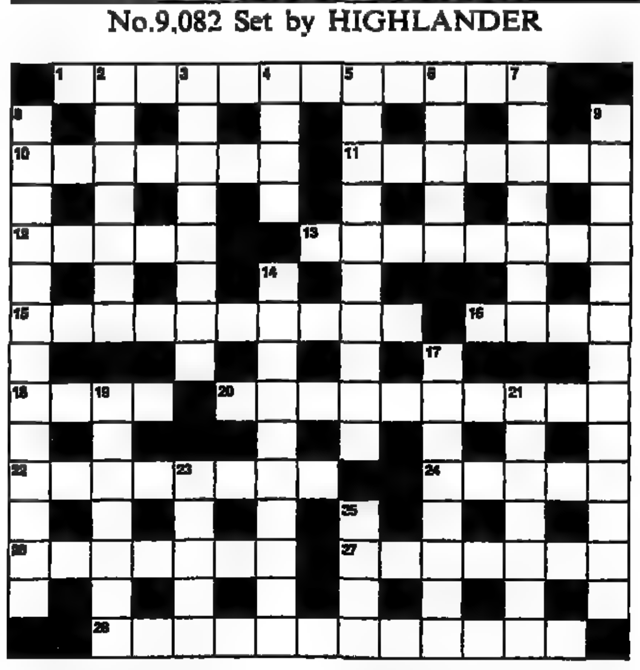
Gold (per troy oz)♣	$391.35	+0.05
Silver (per troy oz)♣	537.50c	+3.50
Platinum (per troy oz.)	$399.85	+0.10
Palladium (per troy oz.)	$131.75	-0.25
Copper	134.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	15.61r	+0.23
Tin (New York)	295.50	+4.00
Cattle (live weight)	99.39p	+2.22*
Sheep (live weight)	143.19p	-11.52*
Pigs (live weight)†	120.03p	-3.60*
Lon. day sugar (raw)	$287.1	-1.1
Lon. day sugar (wte)	$392.5	
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	Unq	
Wheat (US Dark North)	Unq	
Rubber (Jun)♥	103.75p	-1.00
Rubber (Jul)♥	103.75p	-1.00
Rubber (KL RSS No1)	383.00m	+1.00
Coconut Oil (Phil)§	815.0v	
Palm Oil (Malay.)§	$510.0	-15.0
Copra (Phil)§	$521.0z	
Soyabeans (US)	218.0z	-7.0
Cotton Outlook'A' index	83.95c	+0.20
Wooltops (64s Super)	448p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. z May/Jun. x Jul. v Apr/May. y Apr/Jun. w Jun/Jul. ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 1,750 head of pigs sold.

JOTTER PAD

CROSSWORD

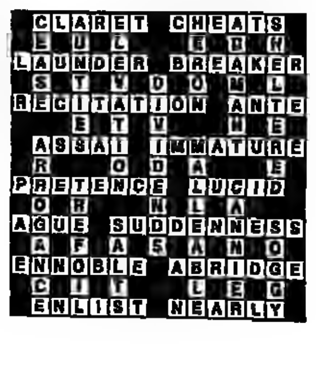
No.9,082 Set by HIGHLANDER



ACROSS
1 Extremely rich standing in railway carriages (7,5)
10 The fat cry (7)
11 Dry vigorously to prepare for painting problem with feathers (3,4)
12 Fabric that was originally off-colour (5)
13 Acted like a rabble-rouser in a turbulent state (8)
15 Short man has a reason that's relevant (2,3,5)
16 Advantage derived from backing say, of the French (4)
18 Terrorists take on North Country (4)
20 Would rather people have time for promotion (10)
22 Gold found after tax fraud (8)
24 Unattractive topographical feature (5)
26 Closest pair of bridge players are on the way (7)
27 Settle in stable accommodation (7)
28 Listen in on English judge's audio equipment (4,8)

DOWN
2 Ophthalmologist firm turns to university directory (7)
3 Identified the boy holding prettiest girl (8)
4 Spy is upset (4)
5 Dish created from frogs – no fat involved (10)
6 It follows ball's path (5)
7 Fastened by king (not Edward) (7)
8 Childbirth specialists beat crisis – not unusual (13)
9 By accident or with intent including a lot of publicity (13)
14 Bed of sprout hybrid with tips of early radishes below (4-6)
17 He offers to marry and support Rose somehow (8)
19 When parking, stop on road surface (7)
21 English soldier had food issue (7)
23 Brush stroke (5)
25 Dancehall loses old record (4)

Solution 9,081



INTERNATIONAL CAPITAL MARKETS

US sell-off depresses European prices

By Samer Iskandar in London and Lisa Bransten in New York

European bond yields rose yesterday after the overnight sell-off in US Treasuries. The high-yielding markets, which had been outperforming bunds for several weeks, suffered most as their currencies weakened in response to the dollar's retreat against the D-Mark. US Treasuries were also weak, due to renewed inflationary fears and supply of new 5-year notes.

■ Italian bonds closed sharply lower. Liffe's June BTP future lost 0.73 to settle at 115.83. In the cash market, the 10-year benchmark BTP fell by 0.58 to 100.92, its yield premium over bunds widening by 5 basis points to 310. But analysts described the market's fall as a correction and were confident the momentum behind the rally was still intact.

■ The Spanish bond market was also among the weakest. The June future on 10-year bonos closed 0.73 point lower at 99.05. In the cash market, the 8.8 per cent bond due 2006 closed at 97.74, down 0.76.

■ UK gilts also had a negative session. Liffe's long gilt future closed at 105$\frac{7}{16}$, down $\frac{13}{16}$. The bearish sentiment was fuelled by fears of rising supply of debt to accommodate higher than expected funding needs.

■ Bunds opened lower and accentuated their losses after the release of disappointing inflation data. Liffe's June bund future settled at 96.43, down 0.53. In the cash market, the 10-year benchmark bund lost 0.53 to close at 98.22. Preliminary cost of living data for May showed an unexpected 0.3 per cent rise in the West German states, contrasting with a downward revision in April's figure.

GOVERNMENT BONDS

■ French bonds fell but outperformed bunds. Matif's June notional future closed at 123.36, down 0.44. In the cash market, the 10-year yield spread over bunds tightened by 1 basis point to 1. But analysts are increasingly bearish and point to the increasing risk of social unrest.

Ms Marie Owens Thomsen, chief economist at BIP Dresdner Bank in Paris, is also wary of the rising public support for a shorter working week. She warns of the potential negative effect such a decision could have on French economic fundamentals and the financial markets.

■ Worries that inflationary pressure may be building sent US Treasury prices lower in early trading yesterday as Wall Street awaited the outcome of the afternoon auction of $12.5bn in five year notes.

Near midday, the benchmark 30-year Treasury was off $\frac{1}{16}$ at 87$\frac{13}{16}$ to yield 6.960 per cent, while the two-year note lost $\frac{1}{16}$ at 99$\frac{13}{32}$, yielding 6.202 per cent. The June 30-year Treasury bond future fell ⅛ a point to 109$\frac{5}{16}$.

Yesterday's fears were sparked by stronger-than-expected figures on single family home sales. New home sales rose 6.7 per cent in April to 776,000, against economists' expectations of around 688,000.

A downward revision to the Commerce Department's estimate of first-quarter gross domestic product, to 2.3 per cent from 2.8 per cent originally reported, failed to reassure market participants.

"Looking forward, preliminary data available for the second quarter combined with momentum built up during the end of the first quarter suggest that second-quarter growth will also be strong," said economists at Donaldson, Lufkin & Jenrette. They estimated second-quarter GDP growth of nearly 3 per cent.

Bulgarian samurai bond issue default in prospect

By Emiko Terazono in Tokyo

Japanese institutional investors are bracing themselves for a possible default next month of yen bonds issued by one of Bulgaria's financially weakest banks.

The Bank of Economic Projects, known as Mineralbank, may not be able to redeem Y5bn in samurai bonds, or yen bonds issued by foreign borrowers in Japan, which mature June 14.

The bond was arranged by Industrial Bank of Japan in 1989 and was privately placed with Japanese banks, insurance companies and agricultural co-operatives.

The development comes as an increasing number of Japanese investors are turning to samurai issues, in search of higher yields.

Samurai bond issues totalled Y2,108bn in the 12 months to last March, up 67 per cent on the year.

The number of issues has been supported by the lifting of credit rating restrictions on samurai bond issuers by the ministry of finance at the start of this year, and has triggered a rise in borrowers with low credit ratings.

Japanese investors have been enthusiastically purchasing "junk" grade samurai bonds due to the high returns. Retail investors have also been active buyers, taking on 52 per cent of last year's issues.

Japanese financial authorities said they were monitoring events, but commented that it would be up to IBJ to deal with the issue in the case of a default.

"It should alert Japanese investors who are still not fully aware of the concept of risk," one official said.

First-quarter debt issuance hits peak

By Richard Lapper

The growing demand of financial institutions for finance helped lift international debt issuance to new peaks in the first quarter of this year despite uncertainty in financial markets, according to the Bank for International Settlements*.

Other factors fuelling the primary bond market included the increased acceptance in the market for asset-backed securities outside the US and the UK and rising demands from borrowers in the emerging markets.

Over the quarter as a whole, international bond issues amounted to $155.2bn, with net issuance after redemptions amounting to $55.5bn compared with $19.8bn in the same period of 1995. Net issuance of euronotes amounted to $56.6bn, compared with $36bn in the first quarter of 1995.

The report also noted "a sharp rise in the average size of bond issues, an extension in their average term to maturity and a pronounced reduction in the risk premia required on securities issued by lower-rated borrowers".

Financial institutions raised $43.6bn net in bonds (78 per cent of the total) and $35.4bn in euronotes (62.5 per cent of the total), compared with $71.9bn and $114.7bn respectively for the whole of last year.

The shift of investors from traditional bank deposits to marketable assets, which has forced banks to diversify funding sources, and the growing creditworthiness of Anglo-Saxon and Scandinavian institutions are among factors behind the trend, said the report.

The BIS noted that range of issuers and structures to the asset-backed sector has recently widened to include domestic public institutions (US government sponsored agencies and German Pfandbrief issuers). Private sector issuers have included a German car company (which has raised money on paper backed by car leases) and a Mexican telephone utility (an issue backed by foreign currency receivables).

Emerging market borrowers raised $15.5bn over the quarter as a whole, equivalent to record levels achieved in the third quarter of 1995. The search by international investors for higher yield, the greater commitment generally made to economic stabilisation programmes in both the developed and developing world, and the fact that a broader range of investors are buying developing countries' debt all helped drive demand.

Separately, the report noted that record levels of merger and acquisition financing activity drove the syndicated loan market to a new high, with syndicated facilities announced in the first three months of the year amounting to $98.9bn, compared with $82.8bn in the same period of 1995.

In its comments on the macro-economic environment, the report said that better than expected inflationary outlook and greater stability in the currency market at the beginning of the year had created a "bullish undertone" for the issuance of new securities.

Market sentiment shifted in mid-February following evidence of stronger economic growth in the US, and remains "fragile".

The downward correction in the US Treasury market "might have been exacerbated by the unwinding of yen-funded leveraged positions" although the degree of leverage "appears to have been significantly lower than in early 1994".

**International Banking and Financial Market Developments: Bank for International Settlements, Basle, May 1996.*

Sterling sector sees three new issues

By Conner Middelmann

The sterling market saw three new issues worth £500m yesterday, highlighting the recent pick-up in activity in the sector. Overseas interest in eurosterling bonds has risen lately, dealers said, fuelled partly by recent currency strength and sterling bonds' substantial yield pick-up over other European markets.

INTERNATIONAL BONDS

"UK bonds have significantly underperformed Europe because they haven't been benefiting from Emu convergence trades, and are now considered cheap," one dealer explained.

Nevertheless, yesterday's deals were bought mostly by UK investors more familiar with the borrowers' names.

At the long end of the market, UK insurer Commercial Union issued £200m of 20-year bonds priced to yield 95 basis points over gilts.

The deal was placed within hours of the launch, mostly with traditional UK buyers of long-dated debt such as insurance companies and pension funds, joint bookrunners BZW and NatWest Markets said. Strong demand and a fall in the underlying gilt market caused the spread to narrow to about 92 basis points.

Beneficial Bank, a UK credit card provider, issued £150m of two-year floating-rate notes which had been widely pre-marketed and were fully placed. In contrast to several recent sterling floaters, the bonds performed well on their first day, closing at 99.94 bid, above their 99.93 re-offer price at which they yielded 10 basis points over Libor. Lead manager J.P. Morgan reported demand from institutions in Scandinavia, German, the Benelux and France.

Bradford & Bingley Building Society issued £150m of bonds maturing in December 1999, priced at 35 basis points over gilts. Lead manager Union Bank of Switzerland said most of its sales were to UK accounts.

Elsewhere, strong investor appetite for high-yielding, Middle Eastern bonds – demonstrated by last week's Turkey bond – inspired Midland Bank to launch an innovative structure: $25m of bonds linked to the Lebanese pound. The bonds, which pay a 16 per cent coupon, "allow investors to earn prevailing Lebanese interest rates while taking exposure to the currency," an official at lead manager HSBC Markets said. The Lebanese pound has appreciated by about 3 per cent a year, in nominal terms, since 1993. Coupon and redemption payments will be in US dollars, linked to the prevailing exchange rate. The deal was launched in response to "reverse enquiry" from US offshore and Middle Eastern investors.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
KfW International Finance	200	6.50	99.80R	Jun 2000	0.225R	+3(§)	Paribas Capital Markets
Petroquimica União(a)	60	(a1)§	99.17R	Jun 2004	0.75R	+595(6¾%-98)	Indosuez Capital
Midland Bank(b)	25	16.00	100.00	Jun 1997	0.10	-	HSBC Markets
STERLING							
Commercial Union(c)	200	9.50	99.447R	Jun 2016	0.625R	+95(8¾%-17)	BZW/NatWest Capital Mkts
Bradford & Bingley B/S(¶)	150	7.625	99.83R	Dec 1999	0.225R	+35(6%-99)	UBS
Beneficial Bank‡	150	(d)	99.93R	Jun 1998	0.125R	-	JP Morgan Securities
FRENCH FRANCS							
Atlas Capital‡	3.9bn	(e)	100.00R	Dec 1998	0.125R	-	BT(France)/Bankers Tst Intl
ITALIAN LIRE							
Cariplo, London Branch(f)	500bn	zero	40.56	Jul 2006	1.00	-	Cariplo
AUSTRALIAN DOLLARS							
World Bank	100	8.25	101.12	Jul 1999	1.50	-	Toronto Dominion Bank
PESETAS							
L-Bank(‖)	10bn	7.80	100.849	Jun 1999	1.25	-	Argentaria/Deutsche Bank
ESCUDOS							
Argentaria Global Finance‡	10bn	(g)	100.00	Jun 2001	-	-	Banco Espirito Santo

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a) Callable on 14/6/99 at 101.02% and on 14/6/01 at 102.03%. Puttable on 14/6/99 at 100.01% and 14/6/01 at par. a1) 12% to 14/6/98, then 13½% to 14/6/00 and 15¼% thereafter. b) Redemption linked to Lebanese pound. c) Spens call provision. d) 3-mth Libor +⅛%. e) 3-mth Pibor +10bp. f) Callable on 3/7/01 at 62.02%. g) 6-mth Lisbor -5bp. § Over interpolated yield. ‖ Long 1st coupon. ¶ Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	02/06	106.9890	-0.780	8.98	8.78	8.97
Austria		6.125	02/06	97.8500	-0.380	6.45	6.44	6.39
Belgium		7.000	05/06	101.0900	-0.410	6.72	6.68	6.61
Canada *		8.750	12/05	107.2100	-0.800	7.67	7.57	7.65
Denmark		8.000	03/06	103.5600	-0.600	7.47	7.37	7.15
France	BTAN	5.750	03/01	100.8750	-0.250	5.53	5.50	5.58
	OAT	7.250	04/06	105.3900	-0.410	6.49	6.43	6.42
Germany Bund		6.250	04/06	98.2200	-0.530	6.50	6.42	6.34
Ireland		8.000	08/06	102.1500	-0.720	7.68	7.58	7.54
Italy		9.500	02/06	100.9200	-0.580	9.35†	9.38	9.78
Japan	No 140	[illegible]	06/01	119.4960	+0.040	2.29	2.32	2.40
	No 182	3.000	09/05	98.5677	-0.110	3.20	3.22	3.30
Netherlands		6.000	01/06	97.3600	-0.480	6.37	6.33	6.28
Portugal		11.875	02/05	117.2500	-0.670	9.03	8.94	8.90
Spain		8.800	04/06	97.7400	-0.760	9.14	9.10	9.09
Sweden		6.000	02/05	85.1987	-0.430	8.47	8.33	8.23
UK Gilts		8.000	12/00	101-30	-11/32	7.48	7.39	7.44
		7.500	12/06	95-11	-23/32	8.17	8.03	8.00
		9.000	10/08	105-20	-22/32	8.26	8.13	8.09
US Treasury *		6.875	05/06	100-09	-39/32	6.83	6.65	6.46
		6.000	02/26	87-27	-43/32	6.97	6.84	6.72
ECU (French Govt)		7.500	04/06	103.4900	-0.550	6.98	6.87	6.79

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	8¼	One month	-	Two year	6.22
Broker loan rate	7	Two month	-	Three year	6.40
Fed.funds	5$\frac{5}{16}$	Three month	5.16	Five year	6.62
Fed.funds at intervention	-	Six month	5.39	10-year	6.84
		One year	5.74	30-year	6.98

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	123.60	123.26	-0.54	123.66	123.22	175,685	155,311
Sep	122.06	121.70	-0.56	122.10	121.70	13,583	22,166
Dec	120.86	120.50	-0.59	120.90	120.56	380	9,407

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Jun	Jul	Aug	Sep	PUTS Jun	Jul	Aug	Sep
120	3.25	-	-	-	-	-	[illegible]	[illegible]
121	2.25	1.11	1.33	-	-	-	0.29	0.92
122	-	0.61	1.07	-	-	-	0.78	1.33
123	0.26	0.16	0.67	-	-	-	1.42	-
124	-	0.05	0.35	0.74	-	-	-	-

Est. vol. total, Calls 21,864 Puts 26,728 . Previous day's open int., Calls 157,244 Puts 164,603.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.74	96.43	-0.53	96.80	96.36	195147	121945
Sep	95.80	95.53	-0.56	95.90	95.47	38104	76375

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Jul	Aug	Sep	Dec	PUTS Jul	Aug	Sep	Dec
9650	0.52	0.82	1.02	1.02	0.49	0.79	0.99	1.84
9700	0.29	0.57	0.77	0.81	0.76	1.04	1.24	2.13
9750	0.14	0.38	0.58	0.64	1.11	1.35	1.53	2.46

Est. vol. total, Calls 9943 Puts 9043. Previous day's open int., Calls 107906 Puts 103989

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	116.15	115.83	-0.73	116.35	115.56	63726	47328
Sep	115.70	115.24	-0.72	115.72	114.97	10631	17982

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Sep	Dec	PUTS Sep	Dec
11500	1.90	2.35	1.85	2.73
11550	1.64	2.15	1.90	3.00
11600	1.41	1.94	2.17	3.29

Est. vol. total, Calls 5194 Puts 4093. Previous day's open int., Calls 31925 Puts 24345

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	99.02	99.05	-	99.43	98.80	92,750	57,595
Sep	98.61	98.53	-	98.83	98.39	1,235	5,0[illegible]

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	106-00	105-14	-0-26	106-01	105-09	87241	86311
Sep	105-02	104-12	-0-30	105-02	104-06	34204	55197

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Jul	Aug	Sep	Dec	PUTS Jul	Aug	Sep	Dec
104	0-63	1-26	1-44	1-59	0-39	1-02	1-20	2-35
105	0-32	0-59	1-12	1-33	1-08	1-35	1-52	3-09
106	0-11	0-37	0-51	1-11	1-51	2-13	2-27	3-51

Est. vol. total, Calls 4067 Puts 2893. Previous day's open int., Calls 12985 Puts 16536

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	91.28	90.94	-0.46	91.28	90.94	3,933	5,932
Sep	90.78	90.50	-0.46	90.78	90.50	1,221	2,443

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	108-26	108-08	-0-20	109-03	108-13	337,257	386,883
Sep	108-11	107-21	-0-20	108-15	107-28	103,632	122,435
Dec	107-22	107-11	-0-13	107-23	107-13	263	7,139

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Jun	118.76	-	-	118.76	118.65	806	0
Sep	118.61	-	-	118.62	118.53	2748	0

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Thu May 30	Day's change %	Wed May 29	Accrued interest	xd adj. ytd
1 Up to 5 years (22)	120.93	-0.18	121.14	2.05	4.26
2 5-15 years (19)	143.28	-0.60	144.62	1.39	5.64
3 Over 15 years (8)	157.88	-0.73	159.04	2.88	5.43
4 Irredeemables (6)	178.90	-0.69	179.95	1.18	6.12
5 All stocks (55)	139.46	-0.63	140.34	1.89	5.13
Index-linked					
6 Up to 5 years (1)	196.34	-0.12	196.57	0.63	4.43
7 Over 5 years (11)	185.05	-0.44	185.87	1.29	1.81
8 All stocks (12)	185.18	-0.43	185.99	1.27	1.86

	Low coupon yield May 30	May 29	Yr. ago	Medium coupon yield May 30	May 29	Yr. ago	High coupon yield May 30	May 29	Yr. ago
5 yrs	7.60	7.49	7.65	7.64	7.56	7.68	7.74	7.64	7.71
15 yrs	8.34	8.24	7.89	8.35	8.26	7.89	8.42	8.34	8.00
20 yrs	8.40	8.32	7.90	8.40	8.32	7.90	8.40	8.36	8.01
Irred.†	8.43	8.37	7.97						

	Inflation 5% May 30	May 29	Yr. ago	Inflation 10% May 30	May 29	Yr. ago
Up to 5 yrs	2.90	2.83	3.09	1.45	1.37	1.55
Over 5 yrs	3.87	3.83	3.55	3.86	3.82	3.36

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	May 30	May 29	May 28	May 24	May 23	Yr ago	High*	Low*
Govt. Secs. (UK)	91.74	92.24	92.28	92.36	92.35	94.81	96.34	91.59
Fixed Interest	111.60	111.75	111.86	111.91	112.09	113.55	115.23	110.74

* for 1996. Government Securities high since compilation: 127.4 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974

GILT EDGED ACTIVITY INDICES

	May 29	May 28	May 24	May 23	May 22
Gilt Edged bargains	125.4	76.0	87.9	88.0	92.7
5-day average	93.6	94.2	97.3	98.5	98.2

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on May 30

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SWISS FRANC STRAIGHTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
YEN STRAIGHTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
OTHER STRAIGHTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DEUTSCHE MARK STRAIGHTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FLOATING RATE NOTES					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CONVERTIBLE BONDS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

UK GILTS PRICES

Notes	Yield Int	Red	Price £	+ or -	52 week High	Low
Shorts (Lives up to Five Years)						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Five to Fifteen Years						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Over Fifteen Years						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Undated						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Index-Linked						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Other Fixed Interest

Notes	Int	Red	Price £	+ or -	52 week High	Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

JOBS: Public policy needs to address the challenge of training

Outlook grows bleaker for the unskilled

The call for increased spending on education and training to equip vulnerable workers with the skills needed to face the challenges of an increasingly globalised and competitive economy has become an unthinking mantra among policymakers on both sides of the Atlantic.

"It appears to be the only policy intervention that meets with universal approval across the political spectrum," says Ethan Kapstein, director of studies at the US Council on Foreign Relations, in the latest issue of *Foreign Affairs*.

Certainly the lack of skills has become a severe handicap in the labour market as the prospects of finding employment that does not require formal qualifications grows more and more difficult, especially for men.

Indeed, there are those, such as Professor Stephen Machin at the Centre for Economic Performance at the London School of Economics, who believe western market economies are entering a period that will bring about the "end of the unskilled job" as shifts in employment patterns adversely affect those without qualifications.

There is some recent evidence in the UK to underline that point. Research carried out by the Office for National Statistics into the occupational characteristics of the claimant unemployed in the UK found the most sought-after work for nearly a quarter of the male jobless was in general labouring.

Other jobs sought by the male unemployed were as storekeepers and warehousemen, messengers, cleaners, porters, clerks and sales assistants. Indeed, most men without work limit their job expectations to seeking a job in as few as 12 out of the 371 occupations classified.

The narrow job reference points used by the unemployed were also apparent in the research that discovered nearly two-thirds of claimants who had worked previously were seeking employment in the same occupational group as they had done before. But the prospects of any significant increase in the number of unskilled jobs available in the UK and US labour markets look bleak.

The latest forecasts up to the year 2001 from the Institute for Employment Research at Warwick University suggest further cuts in the proportion of employment opportunities available for those who lack skills or formal qualifications at all.

The revolution in information technology has raised the demand for skilled people and at the same time put an increasing number of the unskilled out of their jobs. Meanwhile, competition in international trade from relatively low-wage labour around the Pacific Rim has had an added adverse impact. At the same time the unskilled and unqualified worker faces the probability of a continuing rapid decline in earnings relative to the rest of the labour market.

As a recent study of male wages pointed out, between 1978 and 1992 the real pay of the bottom 10 per cent of earnings distribution had zero growth, compared with a 35 per cent improvement in the position of those on the median and more than 50 per cent for the top 10 per cent.

The real hourly wage of Americans without a high school diploma fell from $11.85 an hour in 1973 to $8.64 an hour last year. Twenty-three years ago, US households in the top 5 per cent of the income bracket earned ten times more than those in the bottom 5 per cent; today they earn nearly 15 times more.

"The increasing gap between the wages of skilled versus unskilled men suggests the demand for skill has increased either because of changes in technology or changes in the structure of product markets and that the supply of skilled labour has not changed fast enough to compensate," argue Professor Machin and his colleagues *(1)*.

Current thinking on training in the UK has concentrated on providing a free market-driven approach that stresses the needs of the individual but this looks like being an insufficient response when dealing with the problem of the unskilled, long-term male unemployed, whether adult or young.

The pressures that the employment service will be expected to apply on the jobless through the administration of the jobseekers' allowance scheme when it comes fully into operation this October are unlikely to prove a success if they reinforce a retrograde tendency in the UK system that Professor Dennis Snower at Birkbeck College, London University, has described as a disincentive for the unskilled to acquire skills.

What appears to be true is that the market alone will not solve the intractable problem of the unskilled. It is going to require a more pro-active public policy to compensate for market failure. Snower and his colleagues at the Centre for Economic Policy Research spell out what this means in a recent volume on skills acquisition which provides a useful collection of essays on the current state of UK training *(2)*.

They argue in particular for the provision of training vouchers funded out of general government revenues and the introduction of accreditation programmes under which employer-initiated training leads to generally recognised credentials for those involved.

Other proposals would include apprenticeship contracts which would put young people on programmes that provide on-the-job training on some days of the week and off-the-job vocational training on others.

There would also be provision of loans, conditional loan guarantees, and the linking of training subsidies to unemployment benefits and other welfare payments.

The centre makes a telling point when it contrasts the disparity in UK policy on education with that on training. While the UK government continues to pay tuition and provides partial maintenance grants for most British students receiving academic education, little support is given for non-degree-level vocational education and training. Perhaps the priorities need to be reversed.

1. New Inequalities: The Changing Distribution Of Income And Wealth In The United Kingdom, edited by John Hills, Cambridge University Press, £16.95.

2. Acquiring Skills: Market Failures, Their Symptoms And Policy Responses, edited by Alison Booth and Dennis Snower, Cambridge University Press, £15.95.

Degree of optimism

A good sign of growing optimism in the labour market has come with this year's Gallup survey of human-resource priorities in Britain's large companies.

The focus is on how to achieve competitive advantage through the recruitment and development of high-quality staff and to provide the means to ensure they are retained. The survey suggests rationalisation and cost-cutting are no longer high on the agenda, although companies still expect to reduce their payrolls, not increase them, during 1996.

But nearly three-quarters of the human-resource managers surveyed said they would be recruiting graduates direct from university this year and 37 per cent said they would be recruiting more than last year.

Accounting, finance, marketing and information technology are the priority areas for graduate recruitment. But by contrast personnel is a low priority and so is research, delayering management, reducing personnel costs or negotiating non-inflationary pay settlements.

More concern is being expressed about how to improve productivity levels, identify and develop leadership and improve communications with employees.

Training is also coming into fashion. As many as 48 per cent of those surveyed said they would be spending more on this in 1996 than last year.

The sample was made up of 98 personnel, human resource and other directors in large companies, with 80 per cent of those covered being employed by companies with 1,000 workers or more.

Robert Taylor

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- Should have experience of structuring and negotiating project financing with lending institutions for overseas projects and have extensive contacts within such institutions.
- Should have played a leading role in contract negotiations for major international projects.
- Should have broad experience and understanding of concession structuring and the risks associated with operations management and institutional strengthening projects implemented through BOO/BOT/BOOT and PFI type schemes overseas.
- Should have experience of working abroad and dealing successfully with different cultures.
- Should be highly numerate, an excellent negotiator, self-confident and highly self-motivated.

If you meet these requirements, please write enclosing a full CV, and covering letter, setting out how you believe you match this candidate profile and how you could contribute in this role. Please indicate current remuneration details and a contact telephone number. All applications will be acknowledged and will be treated in the strictest confidence.

Candidates should write to Mrs. J. Mitchell, Partner, The Perseus Partnership, Argosy House, Collins Court, High Street, Cranleigh, Surrey GU6 8AS. The closing date for applications will be Friday, 21st June, 1996.

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A competitive remuneration package is available. Interested applicants should write enclosing a complete curriculum vitae to Ann Crookall, Human Resources, Salomon Brothers International Limited, Victoria Plaza, 111 Buckingham Palace Road, London SW1W 0SB.

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Interested candidates should send their curriculum vitae to Mark Pryor at Michael Page Taxation, Page House, 39-41 Parker Street, London WC2B 5LH or telephone him on 0171 831 2000, fax 0171 831 6662.

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Interested candidates should write with full CV, quoting current rewards package to Mark Hurley FCMA, Hoggett Bowers, 7-9 Bream's Buildings, Chancery Lane, London EC4A 1DY. Tel: 0171 430 9000, Fax: 0171 405 5995 quoting ref: HMH/3129/FT.

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QUALIFICATIONS

- Entrepreneurial and energetic. Strong team player.
- Creative developer of systems and structures. Excellent people management and communication skills. Ability to relate to and deal with a wide spectrum of individuals.
- Suitably qualified. Knowledge of charity obligations and ideals. Empathy with the world of art.

Please send full cv, stating salary, ref LG60508, to NBS, 54 Jermyn Street, London SW1Y 6LX
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Our client is a leading international transport and distribution organisation with a world class reputation.

An exciting opportunity has arisen within the Group Business Strategy and Planning Department for a commercially astute accountant reporting to the Finance Director. Applications are invited from accountants with an excellent academic track record including a good degree and first time passes, together with at least two years' post qualification experience.

The role requires the flexibility to deal with a variety of work including:

- Identifying and executing acquisitions and disposals
- Preparing business plans and presenting at board level
- The ability to construct and utilise computerised business models
- Investment appraisal using discounted cashflow techniques

This is a key position within a dynamic organisation, offering the opportunity to make a major contribution to the direction of the business. The ability to form effective working relationships with people at all levels within the organisation to facilitate achievement of business goals is essential.

To discuss this opportunity in total confidence, please contact Ian Temple BSc (Hons) ACA on 0171 405 4161. Alternatively, send your CV to him at the address below.

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With a turnover of around £400 million, United Distillers UK is the UK operating company of United Distillers, the spirits division of Guinness PLC. It is also the world's most profitable spirits company and the international leader in both scotch whisky and gin.

As part of a major reorganisation, the company seeks to support a step change in the business through its financial team by the appointment of a senior Financial Planning & Analysis Manager who will be responsible for developing and directing the financial planning and analysis activity to support operational management in the achievement of its demanding business objectives.

Reporting to the Finance Director, you will lead and coach a small FP&A team, and will also be responsible for the development of the FP&A activity within newly established operational trade channels for which you will have functional responsibility.

You will be a graduate qualified accountant or MBA with previous financial planning and analysis experience, ideally gained within a retail or fast-moving consumer-orientated business. Above all, you will be commercially astute, intellectually sharp with an analytical mind, and have the presence and immediate credibility to interact with senior management as well as possess the strong leadership skills required to train and develop an effective team.

Career prospects within the wider United Distillers/Guinness Group are excellent and the comprehensive package includes generous relocation assistance.

You should write enclosing a resume together with current remuneration details and daytime/evening telephone contact numbers, quoting Reference 605/A on both envelope and letter, to Chrysaphes Flamminger Associates, Bechtel House, 245 Hammersmith Road, London W6 8DP.

UNITED DISTILLERS

GUINNESS PLC

Director Business Planning

Middlesex — **to £65,000 + car**

Our client is recognised without question as being a market leader with an International reputation for quality and professionalism in the service industry. This multi-national corporation will continue to build on its excellent record of expansion throughout all continents thereby offering continual new challenges to its executives.

It is a direct result of internal promotions that a Director - Business Planning is now sought who will report to the European Chief Financial Officer. The prime function will be to improve the strength of business planning within the corporation and key duties will encompass analysis of operating results, profitability and cost volume profit studies, cash forecasting, budgetary planning and control as well as the formulation of capital and strategic plans. The management and motivation of the planning team as well as working closely with line management will also be important factors within this role.

Candidates will probably be MBA's who can demonstrate sound financial planning and analysis achievements made within a multi-national corporate environment. Modelling and PC skills are a must as is the ability to bring a practical and common sense approach to this high profile position that will work closely with Financial Controllers across Europe.

Please write enclosing full curriculum vitae quoting ref 651 to : Philip Cartwright FCMA, Cartwright Consulting, 3 Wigmore Place, Cavendish Square, London W1H 9DB
Tel: 0171 371 9476 Fax: 0171 371 9478

CARTWRIGHT CONSULTING
FINANCIAL SELECTION & SEARCH

Financial Controller

(FD Designate)

Croydon — ***c.£45,000***

Our client is a small, niche market general insurance company which is the subsidiary of a major US Financial Services group, with plans for European expansion.

There is now a requirement to strengthen the Finance function with the appointment of a Financial Controller who, reporting to the Finance Director, will manage a small department and take day to day responsibility for finance including budgeting, forecasting, management and statutory accounting, as well as reporting to the US.

Candidates should be qualified accountants with demonstrable general insurance experience gained either within industry or the accounting profession and also with some knowledge of consolidations. As well as being technically strong, you should have good staff management skills, be computer literate and have a hands on, non-status conscious approach to your role.

The position can be developed in the short term through increased responsibilities and business expansion plans and this individual must have the potential to become Finance Director in three years time.

To be considered, please send your curriculum vitae, including current remuneration, to Carrie Andrews at Ernst & Young Management Resourcing, Rolls House, 7 Rolls Buildings, Fetter Lane, London EC4A 1NH, quoting ref: CA732.

ERNST & YOUNG

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Head of Internal Audit

LONDON — **COMPETITIVE PACKAGE**

Our client, a major service provider in the South East and a FTSE top 150 company, is experiencing significant organisational and operational change at present in response to an increasingly competitive market place.

The new Head of Internal Audit, reporting to the Chief Executive Officer, will assume responsibility for a small team and be tasked with managing the continuous improvement of the control framework, the audit plan and budgets so that it operates at optimum effectiveness and provides a cost effective and value added service. Other responsibilities will include the development of appropriate standards and performance indicators and within the group provide for the personal development of staff.

Probably a graduate, but not necessarily an accountant, you will have gained several years experience of managing a sophisticated audit function and ideally have some experience of operational audit activities. Whilst no specific industry experience is necessary, previous exposure to organisations experiencing and managing significant change is essential. Bright and commercially astute, you must have a practical knowledge of current control procedures and review techniques. Personal qualities required to ensure success in the role include presence, a strong personality, excellent communication and interpersonal skills, influencing abilities, high energy and a pragmatic and positive approach.

Please send full personal and career details, including current remuneration and daytime telephone number, in confidence to Anne Routledge, Coopers & Lybrand Executive Resourcing Ltd, 1 Embankment Place, London WC2N 6NN, quoting reference AR1179 on both envelope and letter.

INTERNATIONAL CLINICAL FINANCIAL CONTROLLER

Package to £50,000

Marlow, Buckinghamshire

INNOVEX

Innovex leads the way as the world's first Contract Pharmaceutical Organisation (C.P.O.) providing clinical research, health management and sales services to major pharmaceutical companies. In the light of the strategic focus on the International clinical business and the phenomenal and rapid growth in this sector there is a requirement to strengthen the finance resource by the appointment of an International Clinical Financial Controller.

Reporting to the Divisional General Manager, the role will provide financial leadership and direction in the production of management information and commercial decision making.

The ideal candidate will be a mature qualified accountant with at least five years' post qualification experience. The ability to manage change and growth and, above all, strong inter-personal skills at all levels of management are essential.

Experience of working within an International environment is essential and experience of working on clinical contracts and/or within a project based environment would be preferred.

The company offers an excellent remuneration package and tremendous potential for long-term career advancement. Please write in the strictest confidence, enclosing a full CV, salary details and quoting reference NLA0696, to our advising consultant:

Nigel Lynn ACMA at **Nigel Lynn Associates**,
Eastlands 2, London Road, Basingstoke, Hants RG21 4AW.

GROUP MANAGING DIRECTOR

Diversified Group of Companies

Gulf Based **Negotiable Salary**

- Our client is a well established and diversified group of companies in the United Arab Emirates. Due to expansion, the Group is now looking for an aggressive, profit-minded and result-oriented individual with proven track record at a senior management level in a similar organisation to manage the Group.
- The Managing Director will work closely with the Chairman and General Managers of the individual companies to ensure the successful operation of the Group.
- The ideal candidate must possess the following:
  - Strong experience in Finance and Marketing.
  - Excellent interpersonal and human resource development skills.
  - Wide knowledge of different business fields (trends, sucess factors, competitive positioning) with very strong expertise in at least two business areas including high technology.
  - Proven ability to develop and manage business ventures from conception to maturity.
  - Business management and performance measurement skills using modern techniques such as TQM, JIT, Diversified Portfolio Management and Risk and Liquidity Management.
  - Strong strategic planning ability and experience including preparation of strategic plans (vision, mission, objectives and goals) for a diversified group of companies.
- Qualified candidates must have a business degree from a western university at the MBA level and must have a minimum of 15 years experience in management positions.
- Only qualified candidates should forward career details including salary history by 15 June 1996 to Executive Recruitment Division, Ernst & Young, P.O.Box 136, Abu Dhabi, United Arab Emirates, Fax No: +971 2 722968. Only shortlisted candidates will be contacted.

ERNST & YOUNG

DIVISIONAL CONTROLLER

Central Southern England **Base c £40K + car + benefits**

Our client is a rapidly growing, "leading edge" medical device company, operating globally. Consistent with expansion plans, its Eye Care Division is looking to fill the newly created position of Divisional Controller.

THE APPOINTMENT
Reporting to the Divisional CEO in an authorative role, the position will be responsible for management reporting, budgeting, financial and cost control, financial analysis and systems development. There will also be a need to help shape commercial development, including joint ventures, and general business strategy.

CANDIDATE PROFILE

- A qualified Chartered Accountant with a minimum of c 5 years post qualification experience in manufacturing industry.
- A background in healthcare/FMCG and experience within an operating unit would be ideal.
- He/she must have a "nose" for commercial prospects.
- Computer literacy, a strong analytical capability, good communication and interpersonal skills, flexibility and a "can do" attitude are further requirements

The attractive remuneration package will include bonus potential and the prospect of participation in the company's share option scheme. Please send full career details, including current remuneration level to Dr Philip Moorhouse at Euromedica, Cambridge.

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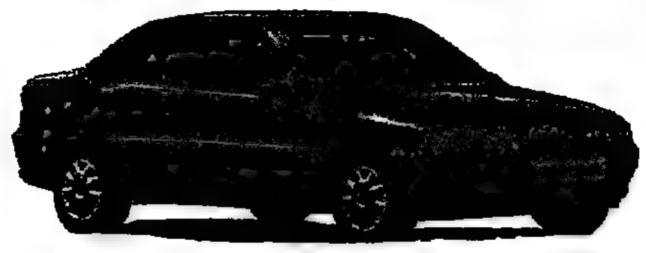
FT

IT Senior Appointments

GM

General Motors International Operations



Manager Data Infrastructure

Competitive Salary + Lease Car + Benefits

General Motors International Operations is a major business sector of General Motors, the world's largest company and includes operations in over 40 countries.

We are seeking a high calibre individual to work within the Information Management function reporting directly to the Director of Technology Services and Deployment.

Based in either Antwerp, Frankfurt or Luton, the successful candidates will spend approximately 40% of their time at other international facilities.

The Key Job Responsibilities will be:-

- Develop international data management strategy.
- Implement a consistent data environment to meet business requirements.
- Liaise with GMIO business units to ensure a consistent approach to data management.
- Liaise with application development and quality assurance functions on data infrastructure related issues.
- Ensure conformance to data standards.

The Key Job Qualifications are:-

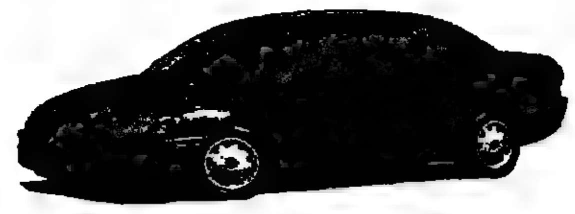
- A minimum of 5 years Data Management experience, preferably in a multi national organisation.
- Experience in Manufacturing Industry (Automotive preferred).
- Detailed knowledge of data analysis, database design techniques and database technologies.
- The successful candidate should also have strong communication skills and management experience.
- Good team player with experience in a multi-cultural organisation.
- Ability to work at all levels within the organisation.

Reply in strict confidence quoting reference MDI with CV and relevant experience by 30th June 1996 to:-

John Culley, Manager Finance Administration, Vauxhall Motors Limited, Griffin House, Osbourne Road, Luton, LU1 3YT, United Kingdom.

GM

General Motors International Operations



Emerging Technology Manager

Competitive Salary + Car + Benefits

General Motors International Operations is a major business sector of General Motors, the world's largest company and includes operations in over 40 countries.

We are seeking a high calibre individual to work within the Information Management function reporting directly to the Director of Technology Services and Deployment. Based in either Antwerp, Frankfurt or Luton, the successful candidates will spend approximately 40% of their time at other international facilities.

The Key Job Responsibilities will be:-

- To provide technical and managerial leadership in the evaluation and implementation of emerging technology in the support of GM's business and technology architecture.
- To interface with industry, standards groups, universities and research organisations in the areas of technology and computing and communications architecture.
- Establish a set of technology metrics to monitor organisational progress.
- Liaise with application development and quality assurance functions on emerging technology related issues
- To manage pilot technology evaluation projects

The Key Job Qualifications are:-

- Graduate with extensive experience of Information Technology as it impacts a global company.
- Experience in setting and contributing to the IT direction of a diverse international organisation.
- High level of analytical and problem solving skills.
- Good team player with experience of multi-cultural organisation.
- Ability to work at all levels within the organisation.

Reply in strict confidence quoting reference ETM with CV and relevant experience by 30th June 1996 to:-
John Culley, Manager Finance Administration, Vauxhall Motors Limited, IMP C2, PO Box 3, Luton, Bedfordshire, LU1 3YT, United Kingdom.

Information System Specialist

Select hardware & software. Set up systems for European facilities of major US Chemical Manufacturing Corp. Applications for distribution; order entry; customer service billings, inventory control. 4 small mfg. plants in Europe. Will then set up systems worldwide.

Fluent English. Similar exp. US or Europe based. Heavy travel. $100,000/yr.

CV Recruiter 15445 Ventura Blvd. #165, Sherman Oaks CA 91403 or Fax 818-981-6505

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IT City Appointments

IT in Investment Management

West End	Permanent or Long-Term Contract	£Exceptional + Banking Benefits

J.P. Morgan Investment Management Inc. is the international investment arm of J.P. Morgan & Co, Inc., which with over $53 billion under management in London alone is one of the premier investment houses in the world. Based in the West End of London, the high quality, growing IT function is made up of small, closely-knit teams of exceptional ability, which work in partnership with the business.
As part of an aggressive Systems strategy to enable the business to continue its rapid growth, legacy applications based on VAX/ Fortran are being replaced with client/server in-house developments and packages. Technologies in use primarily are VB/C/C++/Open Interface on Windows/NT, with Sybase System 10 databases running on Vax Alphas operating Open VMS. To ensure the delivery of the new projects, a number of high calibre individuals are required. The positions offer exceptional salaries, subsidised mortgage, car allowance for senior roles, bonus and non-contributory pension, in addition to other benefits.
Alternatively, a number of the positions are available to contract staff, paying highly competitive rates.

Project Manager & Business Analysts Accounting System

A package is being selected to handle core investment management, portfolio accounting and operations functions. As the selection process draws to a close, there is now a requirement for a project manager and a number of business analysts to undertake the implementation phase.
For the manager position, candidates should have a minimum of 10 years experience, with at least 5 working in an investment management/securities environment. Experience of similar implementations, preferably in a leadership role, is also required.
Business analysts should have circa 3 years experience of investment management/securities operations. They will undertake the next stage of more detailed business analysis, work with package suppliers, define additional functionality and implement the final system. *Ref:DW01d or DW01Cd (Contract)*

Manager Applications Migration & Support

With the increasing number of client/server applications being developed, a team is being formed to manage release into production and on-going support. Proven team building and team leading skills (not necessarily gained in a financial environment) are required for this role, as is experience of the systems development life-cycle in a client/server environment. Technical knowledge should come from VAX, OpenVMS/DCL, RDBMS, C, VB or similar. *Ref: DW02d*

Senior Analyst/Programmers & Analyst/Programmers FI/Equity/Currency/ Derivatives Systems

There are a number of new vacancies in each of the above groups, requiring differing levels of experience. All candidates should have a full life cycle systems background, with good interpersonal skills. Technical skills should come from RDBMS (ideally Sybase), Fortran, C, C++, SQL or VB.
A keenness to work closely with the business whilst demonstrating exceptional technical ability is a pre-requisite. *Ref:DW03d*

Analyst/Programmers Trade Order Processing System

This project is to build a state-of-the-art trading system to handle the management and execution of orders within the in-house trading room. Candidates should have a background in trading systems across a range of asset classes with solid functional and data skills. Experience of CASE tools would be an advantage. Technical skills should come from RDBMS (ideally Sybase), Windows NT, C/C++, VB and event driven programming
Ref: DW04d or DW04Cd (Contract)

To receive further details in writing, please either fax your CV to Derek Wreay on 0171-494 3634 or post it to him at The Wreay Partnership, 150 Regent Street, London W1R 5FA. All agency enquiries should be directed to The Wreay Partnership.

JPMorgan

For Banking, Finance & General Appointments **please turn to pages 15-18**

or contact:
Robert Hunt +44 171 873 4153
Toby Finden-Crofts +44 171 873 3456
Andrew Skarzynski +44 171 873 4054

OPTIMA CONNECTIONS

banking

'C', UNIX-Equity Derivatives

City To £45,000 + Bonus + BBs

Working as part of the Equity Derivatives research team, you will be involved in all aspects of quantitative research utilising the technical skills acquired from a systems development background. Candidates will be ideally educated to Phd level in a mathematically biased discipline and possess indepth 'C'/UNIX experience. Specific product knowledge is particularly beneficial.

C/C++, NT-Debt Derivatives

City To £55,000 Bonus + BBs

One of the top research groups within the City has an opening for a highly numerate developer to work on the development of Analytics and Risk Management Systems. Besides excellent skills in C or C++ on Windows (NT) you will need to demonstrata exceptional problem solving ability coupled with both creativity and enthusiasm.

C++, UNIX-Exotic Options

City To £60,000 + Bonus + BBs

An exceptional C++ developer is sought to work on the development of a new Analytics system for a leading Exotic Options group. They are only interested in the best C++ developers who can also display a high level of business aptitude. A mathematical background and experience of derivative products would be most beneficial.

Systems Developers

City £25-70,000 + Bonus + BBs

One of the City's most technically innovative investment banks, has outstanding opportunities for systems developers. You will be working with the business in a global development environment based on UNIX and NT, optimising your knowledge of C/C++ and UNIX/NT (to systems admin level). A first class degree is prerequisite, and Comms experience would be useful.

Fixed Income-C++, OLE

City £50,000 + Bonus + BBs

The Fixed Income group of this leading proprietary trading house currently require a solid OO specialist with a thorough understanding of BONDS and IR DERIVATIVES trading. You will have a track record of developing similar trading systems using VC++ under NT, OLE/OCX or CORBA, and CLASS LIBRARIES.

OO-Price Modelling

City To £50,000 + Bonus + BBs

The Risk Arbitrage group of this leading Securities House requires an exceptional candidate with a solid understanding of financial analytic models and their integration with all instruments. You will combine sound C++ and OOA/D expertise, with experience of BOND YIELD, OAS and YIELD CURVE models, SWAPS/OPTIONS PRICING and IR DERIVATIVES.

For more information on these and other opportunities currently available please contact

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- C++ and/or Visual Basic
- Mathematical Analytical Skills
- Government Propriety Trading
- Degree/Phd
- Risk Management
- Bonds Trading

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CURRENCIES AND MONEY

MARKETS REPORT

Dollar wobbles in wake of bond market weakness

By Philip Gawith

The dollar yesterday made a tentative recovery in the wake of a sharp overnight sell-off in Asia following the fall in US bond prices.

The dollar continued to slip lower in Europe, and was not helped by the Bundesbank's decision to fix the repo rate at 3.3 per cent for a further two weeks. It reached intra-day lows of DM1.5261 and Y106.75 before recovering during New York trading. It closed in London at DM1.5323 and Y107.6, from DM1.5453 and Y108.745.

The D-Mark's strength against the dollar carried over into Europe, with high-yielding currencies like the lira and the peseta particular victims. The lira finished at L1,011 against the D-Mark, from L1,008. The peseta closed at Pta84.27, from Pta83.6.

Sterling for once managed to shake off the dollar, rallying against both the D-Mark and dollar. It closed at DM2.3515 and $1.5346, from DM2.3477 and $1.5193. The trade weighted index finished at 85.7, the highest level since March last year.

■ The issue concerning dealers yesterday was how far the dollar's correction would extend. The bearish mood which enveloped European traders was arrested in New York by rumours that the Bank of Japan was checking rates – a common prelude to intervention.

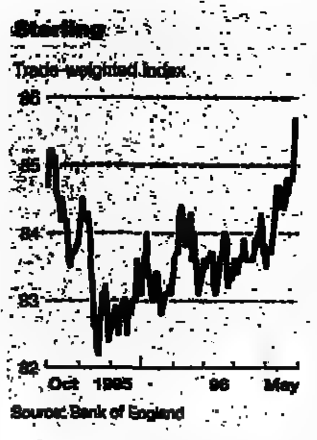
Mr Tim Fox, currency strategist at Standard Chartered in London, said markets were also conscious that the dollar had retreated back to levels from which Mr Eisuke Sakakibara, the influential Ministry of Finance official, had previously suggested it should rally higher. He said that as the 30-year bond yield approached 7 per cent, "markets also get nervous about instability in US asset markets."

Further sharp moves in the dollar appear unlikely ahead of the raft of important US data releases next week.

■ The retreat by European high-yielders and the rally in sterling may be related phenomena. While much of sterling's strength can be attributed to the firmer dollar, Mr Chris Turner, currency strategist at BZW in London believes there is an element of independent strength as investors switch from the lira and peseta to sterling.

"Sterling has some way to catch up before it encounters the same problems of seeing a slow-down in the economy because of strength in the currency."

In both Italy and Spain there are increasing signs of political unease at the economic cost of



currency appreciation. These concerns had their roots in the business community, but they have spread to government circles. The clearest indicator came earlier this week from Mr Rodrigo Rato, Spain's economy and finance minister, when he expressed his wish for a more realistic exchange rate, a clear signal to market to sell the peseta.

Mr Mark Geddes, currency analyst at 4CAST, the financial markets consultancy in London, said: "For Italy, this appears to be leading to some reassessment on the timing and central rates for an ERM return, possibly not now until the third quarter, and a central rate close to L1,025 rather than L1,000."

Mr Geddes said that with the lira and peseta now close to two year highs against the D-Mark, the competitive advantage that their exports enjoyed last year no longer existed. There has been much talk recently of both countries trying to manipulate their exchange rates.

Mr Geddes said Spanish reserves rose $4.4bn in April and Italian reserves by the equivalent of $4.7bn, suggesting "a clear attempt by the authorities to at least stem currency gains."

■ There was also a fair degree of market speculation that the Swiss National Bank might raise interest rates, because official rates are priced off market rates, which have recently been rising at the short end. Mr Turner said the firmer money market rates was the result of investors borrowing cheaply in francs to fund their investments in higher yielding assets elsewhere.

Unlike many observers who are predicting a sharp fall in the franc, Mr Turner said that another spike up was possible so long as German rates trend lower and the SNB believes growth will pick up in the second half. He said the SNB had "not yet reached the stage the Bank of Japan reached a year ago in terms of reflating the economy."

■ Pound in New York

May 30	Latest	Prev. close
£ spot	1.5380	1.5310
1 mth	1.5372	[illegible]
3 mth	1.5358	1.5287
1 yr	1.5322	1.5240

■ OTHER CURRENCIES

May 30	£	$
Czech Rp	42.2218 - 42.3625	27.5190 - 27.5290
Hungary	228.780 - 229.976	149.120 - 149.170
Iran	4600.00 - 4602.00	3000.00 - 3000.00
Kuwait	0.4596 - 0.4606	0.2997 - 0.3001
Poland	4.1545 - 4.1614	2.7080 - 2.7110
Russia	7718.56 - 7727.18	5031.00 - 5034.00
U.A.E.	5.6346 - 5.6380	3.6725 - 3.6735

POUND SPOT FORWARD AGAINST THE POUND

May 30		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	16.5481	+0.0277	381 - 541	16.6099	16.5023	16.5148	2.3	16.4398	2.8	-	-	104.8
Belgium	(BFr)	48.3514	+0.0886	196 - 832	48.3850	48.2200	48.2464	2.6	48.0364	2.6	47.0164	2.8	106.6
Denmark	(DKr)	9.0833	+0.0133	785 - 880	9.0965	9.0636	9.0679	2.0	9.0351	2.1	8.8918	2.1	107.2
Finland	(FM)	7.2595	+0.0342	526 - 664	7.2880	7.2280	7.2561	0.7	7.247	0.7	-	-	82.8
France	(FFr)	7.9619	+0.0174	590 - 647	7.9738	7.9431	7.9479	2.1	7.9199	2.1	7.767	2.2	108.9
Germany	(DM)	2.3515	+0.0039	504 - 526	2.3570	2.3457	2.3486	2.5	2.3361	2.6	2.2858	2.8	108.1
Greece	(Dr)	372.248	+1.733	028 - 468	372.821	370.589	-	-	-	-	-	-	67.3
Ireland	(I£)	0.9742	+0.0011	735 - 749	0.9750	0.9726	0.9734	1.0	0.9721	0.9	0.9653	0.9	99.0
Italy	(L)	2377.86	+12.2	848 - 925	2384.45	2368.07	2386.11	-4.2	2401.21	-3.9	2453.91	-3.2	76.5
Luxembourg	(LFr)	48.3514	+0.0886	196 - 832	48.3850	48.2200	48.2464	2.6	48.0364	2.6	47.1164	2.6	106.6
Netherlands	(Fl)	2.6318	+0.0046	304 - 331	2.6355	2.6065	2.6255	2.9	2.6128	2.9	2.5536	3.0	106.7
Norway	(NKr)	10.0594	+0.0246	510 - 678	10.0733	9.9847	10.0504	1.1	10.0313	1.1	9.9356	1.2	98.6
Portugal	(Es)	242.390	+1.042	250 - 530	242.616	241.819	242.815	-2.1	243.72	-2.2	-	-	94.5
Spain	(Pta)	198.186	+1.861	096 - 276	198.619	196.369	198.496	-1.9	198.991	-1.6	200.646	-1.2	80.3
Sweden	(SKr)	10.3973	+0.0555	888 - 058	10.4233	10.3462	10.3985	-0.1	10.4002	-0.1	10.4024	0.0	89.0
Switzerland	(SFr)	1.9313	-0.0018	303 - 323	1.9349	1.9241	1.9251	3.9	1.9129	3.9	1.8548	4.0	110.8
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	85.7
Ecu	-	1.2465	+0.0005	460 - 470	1.2475	1.2407	1.2452	1.6	1.2422	1.4	1.2308	1.4	-
SDR†	-	1.05703	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5338	+0.0142	319 - 352	1.5369	1.5300	-	-	-	-	-	-	-
Brazil	(R$)	1.5292	+0.0153	287 - 298	1.5334	1.5245	-	-	-	-	-	-	-
Canada	(C$)	2.1002	+0.0151	992 - 011	2.1130	2.0969	2.0995	0.4	2.0988	0.6	2.0878	0.6	84.2
Mexico	(New Peso)	11.4167	+0.1613	096 - 238	11.4241	11.3434	-	-	-	-	-	-	-
USA	($)	1.5346	+0.0153	342 - 350	1.5391	1.5302	1.5339	0.6	1.5323	0.6	1.5264	0.4	87.0
Pacific/Middle East/Africa													
Australia	(A$)	1.9290	+0.0291	279 - 301	1.9314	1.9155	1.9318	-1.6	1.9366	-1.6	1.9619	-1.7	93.9
Hong Kong	(HK$)	11.8732	+0.1164	693 - 771	11.9077	11.8416	11.8651	0.8	11.8536	0.7	11.8337	0.3	-
India	(Rs)	53.7725	+0.4467	315 - 934	54.0940	53.7770	-	-	-	-	-	-	-
Israel	(Shk)	5.0786	+0.0798	670 - 845	5.0965	5.0199	-	-	-	-	-	-	-
Japan	(Y)	165.122	-0.088	003 - 249	165.840	164.070	164.366	5.5	162.906	5.4	156.466	5.2	138.3
Malaysia	(M$)	3.8358	+0.0357	340 - 375	3.8431	3.8240	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2460	+0.0309	446 - 474	2.2469	2.2342	2.251	-2.7	2.2605	-2.6	2.2943	-2.2	107.2
Philippines	(Peso)	40.1759	+0.3957	040 - 477	40.2480	40.1021	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.7554	+0.0575	537 - 570	5.7721	5.7392	-	-	-	-	-	-	-
Singapore	(S$)	2.1646	+0.0193	629 - 665	2.1667	2.1559	-	-	-	-	-	-	-
South Africa	(R)	6.7139	+0.052	045 - 233	6.7297	6.6984	-	-	-	-	-	-	-
South Korea	(Won)	1209.65	+12.1	926 - 004	1213.12	1206.26	-	-	-	-	-	-	-
Taiwan	(T$)	42.4701	+0.2661	513 - 889	42.5869	42.3768	-	-	-	-	-	-	-
Thailand	(Bt)	38.8436	+0.3111	260 - 616	38.9230	38.7320	-	-	-	-	-	-	-

† Rates for May 29. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

May 30		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P Morgan Index
Europe													
Austria	(Sch)	10.7820	-0.0806	796 - 844	10.7990	10.7470	10.7625	3.2	10.7205	2.3	10.537	2.3	104.5
Belgium	(BFr)	31.5075	-0.26	950 - 200	31.5500	31.4050	31.4525	2.1	31.3375	2.2	30.7975	2.3	106.2
Denmark	(DKr)	5.9190	-0.051	175 - 205	5.9353	5.9008	5.9115	1.5	5.8945	1.7	5.8255	1.6	106.3
Finland	(FM)	4.7306	-0.0252	273 - 338	4.7582	4.7195	4.7241	1.6	4.7121	1.6	4.6666	1.4	82.3
France	(FFr)	5.1882	-0.041	877 - 887	5.2000	5.1730	5.1813	1.6	5.167	1.6	5.0992	1.7	106.7
Germany	(DM)	1.5323	-0.013	320 - 326	1.5358	1.5261	1.5298	2.0	1.524	2.2	1.4956	2.4	107.3
Greece	(Dr)	242.570	-1.31	490 - 650	243.850	241.710	244.345	-8.3	247.595	-8.3	261.57	-7.8	67.0
Ireland	(I£)	1.5753	+0.0139	745 - 760	1.5815	1.5725	1.5758	-0.4	1.5767	-0.4	1.5682	0.4	-
Italy	(L)	1549.50	-7.63	900 - 000	1552.68	1544.75	1555.55	-4.7	1567.1	-4.5	1608	-3.8	76.2
Luxembourg	(LFr)	31.5075	-0.26	950 - 200	31.5500	31.4050	31.4545	2.0	31.348	2.0	30.8875	2.0	106.2
Netherlands	(Fl)	1.7150	-0.0143	145 - 154	1.7188	1.7098	1.7117	2.3	1.7046	2.4	1.6728	2.5	108.1
Norway	(NKr)	6.5551	-0.05	513 - 588	6.5882	6.5030	6.5522	0.5	6.5466	0.5	6.5101	0.7	97.8
Portugal	(Es)	157.950	-0.91	900 - 000	158.270	157.510	158.255	-2.4	158.855	-2.3	161	-1.9	94.5
Spain	(Pta)	129.145	-0.06	120 - 170	129.410	128.270	129.365	-2.3	129.825	-2.1	131.385	-1.7	80.5
Sweden	(SKr)	6.7753	-0.0319	715 - 790	6.7943	6.7545	6.7863	-2.0	6.8038	-1.7	6.8458	-1.0	89.3
Switzerland	(SFr)	1.2585	-0.0138	582 - 588	1.2623	1.2525	1.255	3.4	1.2478	3.5	1.214	3.5	110.0
UK	(£)	1.5346	+0.0153	342 - 350	1.5391	1.5302	1.5338	0.6	1.5323	0.6	1.5264	0.4	86.1
Ecu	-	1.2312	+0.0089	310 - 313	1.2379	1.2300	1.232	-0.7	1.2336	-0.5	1.2405	-0.8	-
SDR†	-	0.69696	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9997	-0.0008	996 - 998	0.9999	0.9995	-	-	-	-	-	-	-
Brazil	(R$)	0.9965	-	964 - 965	0.9968	0.9964	-	-	-	-	-	-	-
Canada	(C$)	1.3686	-0.0039	683 - 688	1.3729	1.3677	1.3684	0.1	1.3687	0.0	1.3718	-0.2	83.5
Mexico	(New Peso)	7.4395	+0.031	370 - 420	7.4420	7.4200	7.601	-26.1	7.786	-18.6	9.5495	-28.4	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	96.5
Pacific/Middle East/Africa													
Australia	(A$)	1.2569	+0.0064	566 - 574	1.2580	1.2519	1.2589	-1.9	1.2624	-1.8	1.2811	-1.9	96.3
Hong Kong	(HK$)	7.7370	-0.0015	365 - 375	7.7380	7.7360	7.7377	-0.1	7.7398	-0.1	7.7665	-0.4	-
India	(Rs)	35.0400	-0.08	400 - 400	35.2550	35.1200	35.15	-3.1	35.495	-5.2	36.965	-5.5	-
Israel	(Shk)	3.3076	+0.0191	027 - 124	3.3225	3.2755	-	-	-	-	-	-	-
Japan	(Y)	107.600	-1.145	550 - 650	108.250	106.750	107.155	5.0	106.255	5.0	102.615	4.7	135.7
Malaysia	(M$)	2.4996	-0.0016	990 - 000	2.5005	2.4980	2.5004	-0.4	2.5066	-1.1	2.53	-1.2	-
New Zealand	(NZ$)	1.4635	+0.0056	631 - 641	1.4641	1.4601	1.4666	-2.5	1.4724	-2.4	1.497	-2.3	-
Philippines	(Peso)	26.1800	-0.01	400 - 200	26.2200	26.1400	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7504	-0.0001	503 - 506	3.7506	3.7503	3.7508	-0.1	3.7518	-0.1	3.7549	-0.1	-
Singapore	(S$)	1.4103	-0.0016	098 - 108	1.4110	1.4075	1.4068	3.0	1.4008	2.7	1.3753	2.8	-
South Africa	(R)	4.3750	-0.01	700 - 800	4.3800	4.3700	4.4225	-13.0	4.5125	-12.8	4.85	-10.8	-
South Korea	(Won)	788.250	-	200 - 300	788.800	787.700	-	-	-	-	-	-	-
Taiwan	(T$)	27.6750	-0.09	700 - 800	27.7420	27.6670	27.66	-0.2	27.695	-0.1	-	-	-
Thailand	(Bt)	25.3120	-0.051	070 - 170	25.3430	25.2800	25.4106	-4.7	25.6145	-4.8	26.467	-4.7	-

† SDR rate per $ for May 29. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices May 29: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

May 30	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3⅞	3¼	3¼	3¼	3⅝	7.00	2.50	-
week ago	3⅞	3¼	3¼	3¼	3⅝	7.00	2.50	-
France	3⅝	3⅝	3¾	3⅞	4⅛	3.70	-	3.60
week ago	3¾	3⅝	3⅝	3⅞	4	3.70	-	3.60
Germany	3¼	3¼	3⅜	3¼	3¼	4.50	2.50	3.30
week ago	3¼	3¼	3⅜	3⅜	3⅜	4.50	2.50	3.30
Ireland	5⅛	5⅛	5¼	5⅜	5¾	-	-	6.25
week ago	5⅛	5⅛	5¼	5⅜	5¾	-	-	6.25
Italy	9⅜	9¼	8⅞	8⅝	8⅞	-	9.00	9.25
week ago	9⅜	9¼	8¾	8½	8¾	-	9.00	9.25
Netherlands	2¾	2⅞	2⅞	2⅞	2¾	-	3.00	3.30
week ago	2⅞	2⅞	2¾	2¾	2⅞	-	3.00	3.30
Switzerland	2¾	2⅜	2⅜	2⅜	2¾	5.00	1.50	-
week ago	2¼	2⅜	2⅞	2⅞	2⅞	5.00	1.50	-
US	5¼	5⅜	5⅜	5⅝	5⅞	-	5.00	-
week ago	5⅛	5⅜	5½	5⅝	5¾	-	5.00	-
Japan	½	½	⅝	⅝	⅞	-	0.50	-
week ago	½	½	½	⅝	⅞	-	0.50	-
■ $ LIBOR FT London Interbank Fixing	-	5⅜	5½	5¾	5⅞	-	-	-
week ago	-	5⅜	5½	5⅝	5⅞	-	-	-
US Dollar CDs	-	4.88	5.04	5.26	5.65	-	-	-
week ago	-	4.88	5.04	5.10	5.51	-	-	-
ECU Linked Ds	-	4¾	4⅝	4⅝	4¾	-	-	-
week ago	-	4¾	4⅝	4⅝	4¾	-	-	-
SDR Linked Ds	-	3⅝	3⅝	3⅞	3¾	-	-	-
week ago	-	3⅝	3⅝	3⅞	3¾	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

May 30	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3⅛ - 3	3¼ - 3⅛	3⅛ - 3	3⅛ - 3	3¼ - 3⅛	3⅜ - 3¼
Danish Krone	3⅞ - 3¾	3⅞ - 3¾	3⅞ - 3¾	4 - 3⅞	4⅛ - 3⅞	4⅜ - 4¼
D-Mark	3⅜ - 3¼	3½ - 3⅜	3⅜ - 3¼	3⅜ - 3¼	3⅜ - 3¼	3⅝ - 3½
Dutch Guilder	2⅞ - 2¾	2⅞ - 2¾	2⅞ - 2¾	2⅞ - 2¾	2⅞ - 2¾	2⅞ - 2¾
French Franc	3⅞ - 3¾	3⅞ - 3¾	3⅞ - 3¾	3⅞ - 3¾	3⅞ - 3¾	4⅛ - 3⅞
Portuguese Esc.	6⅞ - 6¾	7⅛ - 7	7⅛ - 7	7⅛ - 7	7⅛ - 7	7⅛ - 7
Spanish Peseta	7⅞ - 7¾	7⅞ - 7¾	7¾ - 7⅝	7½ - 7⅜	7⅜ - 7¼	7½ - 7⅜
Sterling	6¼ - 6	6¼ - 6	6⅛ - 6	6⅛ - 6	6⅜ - 6¼	6⅞ - 6¾
Swiss Franc	2⅞ - 2¾	2⅞ - 2¾	2⅜ - 2¼	2⅜ - 2¼	2⅜ - 2¼	2⅝ - 2½
Can. Dollar	4⅞ - 4¾	4⅞ - 4¾	4⅞ - 4¾	4⅞ - 4¾	4⅞ - 4¾	5⅜ - 5¼
US Dollar	5¼ - 5⅛	5⅜ - 5¼	5⅜ - 5¼	5½ - 5⅜	5⅝ - 5½	5⅞ - 5¾
Italian Lira	9⅜ - 9¼	9⅜ - 9¼	9⅛ - 9	8⅞ - 8¾	8⅝ - 8½	8⅝ - 8½
Yen	½ - ⅜	½ - ⅜	½ - ⅜	⅝ - ½	⅝ - ½	1 - ⅞
Asian $Sing	2⅝ - 2½	2⅝ - 2½	2⅝ - 2½	2⅝ - 2½	2⅝ - 2½	2⅞ - 2¾

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate (FFr 5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.04	95.99	-0.06	96.05	95.97	27,077	49,247
Sep	96.05	95.99	-0.08	96.06	95.96	23,748	59,365
Dec	95.93	95.87	-0.08	95.95	95.86	7,853	32,616

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.72	96.69	-0.06	96.74	96.68	49512	174737
Sep	96.77	96.71	-0.07	96.78	96.68	70868	247253
Dec	96.60	96.52	-0.10	96.61	96.51	79740	206572
Mar	96.31	96.24	-0.10	96.32	96.21	36293	159034

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	91.29	91.26	-0.06	91.32	91.24	9027	50138
Sep	91.93	91.92	-0.07	91.97	91.86	10109	42256
Dec	92.20	92.19	-0.07	92.25	92.17	4341	30194
Mar	92.23	92.21	-0.07	92.27	92.18	1263	12329

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	97.65	97.45	-0.26	97.67	97.40	10845	19492
Sep	97.60	97.36	-0.27	97.60	97.32	23559	33372
Dec	97.39	97.15	-0.27	97.39	97.15	8185	12436
Mar	97.10	96.86	-0.27	97.10	96.85	1963	5976

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	99.39	99.39	+0.01	99.39	99.39	20	na
Sep	99.18	99.18	-	99.18	99.18	737	na
Dec	98.88	98.89	-	98.89	98.88	2245	na

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.65	95.61	-0.06	95.65	95.59	1115	6588
Sep	95.72	95.65	-0.08	95.72	95.66	874	4781
Dec	95.60	95.56	-0.06	95.60	95.55	129	3662
Mar	95.41	95.36	-0.07	95.41	95.35	152	2367

* LIFFE futures also traded on APT

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

May 30		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.79	16.47	4.865	2.014	4918	5.444	20.81	501.3	409.9	21.51	3.994	2.068	4.343	3.175	341.5	2.577
Denmark	(DKr)	53.23	10	8.765	2.589	1.072	2618	2.898	11.08	266.9	218.2	11.45	2.126	1.101	2.312	1.690	181.8	1.372
France	(FFr)	60.73	11.41	10	2.954	1.223	2987	3.306	12.64	304.4	248.9	13.06	2.425	1.256	2.638	1.928	207.4	1.565
Germany	(DM)	20.56	3.862	3.385	1	0.414	1011	1.119	4.277	103.1	84.27	4.422	0.821	0.425	0.893	0.652	70.20	0.530
Ireland	(I£)	49.64	9.325	8.175	2.415	1	2441	2.702	10.33	248.9	203.5	10.68	1.983	1.027	2.156	1.576	169.5	1.279
Italy	(L)	2.033	0.382	0.335	0.099	0.041	100.	0.111	0.423	10.19	8.336	0.437	0.081	0.042	0.088	0.065	6.943	0.052
Netherlands	(Fl)	18.37	3.451	3.025	0.894	0.370	903.5	1	3.822	92.10	75.30	3.951	0.734	0.380	0.798	0.583	62.73	0.473
Norway	(NKr)	48.06	9.029	7.915	2.338	0.968	2364	2.616	10	241.0	197.0	10.34	1.919	0.994	2.087	1.526	164.1	1.239
Portugal	(Es)	19.95	3.747	3.285	0.970	0.402	981.0	1.086	4.150	100.	81.77	4.290	0.797	0.413	0.866	0.633	68.11	0.514
Spain	(Pta)	24.39	4.583	4.017	1.187	0.491	1200	1.328	5.075	122.3	100.	5.247	0.974	0.505	1.060	0.774	83.30	0.629
Sweden	(SKr)	46.49	8.734	7.656	2.262	0.937	2287	2.531	9.673	233.1	190.6	10	1.857	0.962	2.019	1.476	158.8	1.198
Switzerland	(SFr)	25.04	4.704	4.123	1.218	0.504	1231	1.363	5.210	125.5	102.6	5.385	1	0.518	1.088	0.795	85.50	0.645
UK	(£)	48.35	9.083	7.962	2.352	0.974	2378	2.632	10.06	242.4	198.2	10.40	1.931	1	2.100	1.535	165.1	1.246
Canada	(C$)	23.02	4.325	3.791	1.120	0.464	1132	1.253	4.790	115.4	94.36	4.952	0.920	0.476	1	0.731	78.62	0.593
US	($)	31.50	5.917	5.187	1.532	0.635	1549	1.715	6.554	157.9	129.1	6.775	1.258	0.651	1.368	1	107.6	0.812
Japan	(Y)	29.28	5.502	4.823	1.425	0.590	1440	1.594	6.093	146.8	120.0	6.299	1.170	0.606	1.272	0.930	100.	0.755
Ecu		38.80	7.290	6.390	1.888	0.782	1909	2.112	8.074	194.5	159.1	8.347	1.550	0.803	1.685	1.232	132.5	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.6511	0.6529	+0.0008	0.6551	0.6529	24,997	78,324
Sep	0.6555	0.6568	+0.0010	0.6587	0.6566	1,739	6,175
Dec	0.6620	0.6606	+0.0007	0.6620	0.6605	102	1,615

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.7939	0.7960	+0.0012	0.7966	0.7955	16,055	42,539
Sep	0.8010	0.8019	+0.0010	0.8042	0.8012	693	3,850
Dec	0.8096	0.8075	+0.0002	0.8075	0.8075	45	857

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.9260	0.9321	+0.0052	0.9390	0.9316	23,703	78,971
Sep	0.9424	0.9442	+0.0059	0.9510	0.9434	3,373	6,944
Dec	0.9615	0.9615	+0.0116	0.9615	0.9615	63	2,639

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.5308	1.5344	+0.0040	1.5394	1.5294	37,069	59,749
Sep	1.5314	1.5330	+0.0046	1.5380	1.5280	1,912	1,786
Dec	1.5360	1.5360	+0.0092	1.5380	1.5360	6	48

UK INTEREST RATES

LONDON MONEY RATES

May 30	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	7¼ - 6	6⅛ - 6	6⅛ - 6	6⅛ - 6	6⅛ - 6⅛	6½ - 6⅜
Sterling CDs	-	-	6⅛ - 5⅞	6⅛ - 6	6⅛ - 6⅛	6⅝ - 6¼
Treasury Bills	-	-	5⅞ - 5⅞	5⅞ - 5⅞	-	-
Bank Bills	-	-	6⅛ - 5⅞	5⅞ - 5⅞	5⅞ - 5⅞	-
Local authority deps.	5⅞ - 5⅞	5⅞ - 5⅞	6 - 5⅞	6⅛ - 5⅞	6⅛ - 6⅛	6⅜ - 6⅛
Discount Market deps	6½ - 6	6⅛ - 5⅞	-	-	-	-

UK clearing bank base lending rate 6 per cent from March 8, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4½

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc.
Ave. tender rate of discount on May 17, 5.8155pc. ECGD fixed rate Stlg. Export Finance. Make up day May 31, 1996. Agreed rate for period Jun 26, 1996 to Jul 23, 1996, Schemes II & III 7.35pc. Reference rate for period May 1, 1996 to May 31, 1996, Schemes IV & V 6.104pc. Finance House Base Rate 6.5pc from May 1, 1996

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	93.90	93.90	-0.01	93.91	93.89	6740	66300
Sep	93.81	93.80	-0.03	93.81	93.77	12281	64378
Dec	93.60	93.58	-0.04	93.60	93.54	22837	70011
Mar	93.29	93.25	-0.07	93.29	93.21	10994	49139
Jun	92.89	92.87	-0.07	92.91	92.82	5296	37262

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	Calls Jun	Calls Sep	Calls Dec	Puts Jun	Puts Sep	Puts Dec
9375	0.16	0.17	0.18	0.01	0.12	0.35
9400	0.02	0.05	0.10	0.12	0.25	0.52
9425	0	0.02	0.05	0.35	0.47	0.72

Est. vol. total, Calls 3379 Puts 2198. Previous day's open int., Calls 156218 Puts 125618

BASE LENDING RATES

	%		%		%
Adam & Company	6.00	Duncan Lawrie	6.00	Royal Bk of Scotland	6.00
Allied Trust Bank	6.00	Exeter Bank Limited	7.00	●Singer & Friedlander	6.00
AIB Bank	6.00	Financial & Gen Bank	7.00	●Smith & Williamson Secs	6.00
●Henry Ansbacher	6.00	●Robert Fleming & Co	6.00	TSB	6.00
Bank of Baroda	6.00	Girobank	6.00	United Bank of Kuwait	6.00
Banco Bilbao Vizcaya	6.00	●Guinness Mahon	6.00	Unity Trust Bank Plc	6.00
Bank of Cyprus	6.00	Habib Bank AG Zurich	6.00	Western Trust	6.00
Bank of Ireland	6.00	●Hambros Bank	6.00	Whiteaway Laidlaw	6.00
Bank of India	6.00	Heritable & Gen Inv Bk	6.00	Yorkshire Bank	6.00
Bank of Scotland	6.00	●Hill Samuel	6.00		
Barclays Bank	6.00	C. Hoare & Co	6.00		
Brit Bk of Mid East	6.00	Hongkong & Shanghai	6.00		
●Brown Shipley & Co Ltd	6.00	Julian Hodge Bank	6.00		
Citibank NA	6.00	●Leopold Joseph & Sons	6.00		
Clydesdale Bank	6.00	Lloyds Bank	6.00		
The Co-operative Bank	6.00	Meghraj Bank Ltd	6.00		
Coutts & Co	6.00	Midland Bank	6.00		
Credit Lyonnais	6.00	* Mount Credit Corp	6.25		
Cyprus Popular Bank	6.00	NatWestminster	6.00		
		●Rea Brothers	6.00		

● Members of London Investment Banking Association
* In administration

EMS EUROPEAN CURRENCY UNIT RATES

May 30	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Spain	162.493	161.398	+1.641	-0.69	2.14	5
Netherlands	2.15214	2.14111	-0.00163	-0.51	1.96	4
Belgium	39.3960	39.3243	-0.0346	-0.18	1.82	1
Ireland	0.792214	0.792233	-0.001499	0.00	1.43	-0
Germany	1.91007	1.91326	-0.00178	0.17	1.27	-2
Austria	13.4383	13.4624	-0.0118	0.18	1.26	-1
Portugal	195.792	197.222	+0.458	0.73	0.70	-5
France	6.40608	6.47787	-0.00316	1.12	0.31	-8
Denmark	7.28580	7.39036	-0.00746	1.44	0.00	-10
NON ERM MEMBERS						
Greece	292.867	302.986	+0.789	3.46	-1.95	-
Italy	2106.15	1959.37	+10.68	-7.88	10.16	-
UK	0.786652	0.813917	-0.002219	3.47	-1.96	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	Calls Jun	Calls Jul	Calls Aug	Puts Jun	Puts Jul	Puts Aug
1.490	3.92	3.96	4.16	-	0.05	0.34
1.500	2.93	3.07	3.37	-	0.17	0.55
1.510	2.05	2.31	2.65	0.05	0.37	0.84
1.520	0.92	1.61	2.07	0.24	0.68	1.20
1.530	0.62	1.05	1.54	0.61	1.11	1.66

Previous day's vol., Calls 7,530 Puts 6,772. Prev. day's open int., Calls 184,100 Puts 186,586

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.49	94.47	-0.03	94.50	94.46	38,293	355,760
Sep	94.25	94.21	-	94.27	94.20	48,848	361,294
Dec	93.90	93.86	-0.03	93.91	93.84	111,054	373,581

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.49	94.94	-0.02	94.97	94.94	630	7,847
Sep	94.71	94.69	-	94.73	94.69	574	5,478
Dec	94.45	94.44	-0.01	94.45	94.44	78	1,204

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	Calls Jun	Calls Jul	Calls Aug	Calls Sep	Puts Jun	Puts Jul	Puts Aug	Puts Sep
9650	0.19	0.24	0.26	0.27	0.01	0.03	0.05	0.06
9675	0.01	0.06	0.09	0.11	0.08	0.10	0.13	0.15
9700	0	0.01	0.02	0.03	0.32	0.30	0.31	0.32

Est. vol. total, Calls 25859 Puts 16020. Previous day's open int., Calls 360452 Puts 366494

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	Calls Jun	Calls Sep	Calls Dec	Puts Jun	Puts Sep	Puts Dec
9750	0.07	0.18	0.15	0.14	0.30	0.50
9775	0.04	0.09	0.08	0.36	0.48	0.68

Est. vol. total, Calls 675 Puts 0. Previous day's open int., Calls 8570 Puts 4947

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	Calls Jun	Calls Sep	Calls Dec	Puts Jun	Puts Sep	Puts Dec
9125	0.12	0.76	1.06	0.09	0.09	0.12
9150	0.03	0.58	0.86	0.25	0.16	0.17
9175	0.01	0.39	0.68	0.46	0.22	0.24

Est. vol. total, Calls 1250 Puts 350. Previous day's open int., Calls 45867 Puts 26879

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

[illegible]

BANKS, MERCHANT

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

FOOD PRODUCERS - Cont.

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

OTHER FINANCIAL - Cont.

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PHARMACEUTICALS - Cont.

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- ▪ Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Figures or report awaited
- Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- Rule 4.2(a) Irish incorporated non-listed companies.
- Price at time of suspension
- Indicated dividend yield after pending scrip and/or rights issue.
- Merger bid or reorganisation in progress
- Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- Unregulated collective investment schemes.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment

F Yield based on prospectus or other official estimates for 1996-97.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1995.
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
N Dividend is paid in whole or part as a

FID (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xi ex capital distribution.

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

Pembroke Hall, Pembroke, Bermuda

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

Sarasin Funds Mngmt (Guernsey) Ltd

PO Box 246, St Peter Port, Guernsey 01481 723021

Schroder Investment Mngmt (Guernsey) Ltd

PO Box 255, St Peter Port, Guernsey 01481 710551

GUERNSEY (REGULATED)(**)

ANZ Mngmt Co (Guernsey) Ltd

Apollo Investment Management Ltd

Arab Bank Fund Managers (Guernsey) Ltd

Atlantis Fund Management (Guernsey) Ltd

IRELAND (SIB RECOGNISED)

LGT Asset Management Ltd

(44) 171 710 4567 London (852) 843 7200 Hong Kong

IRELAND (REGULATED)(**)

Dragon Korea Fund Plc

For Dresdner see Ireland (SIB recognised)

Dynamic Pacific Portfolio Fund Plc

NAV $3.81 +0.15

Egerton Capital European Fund Plc

Emerging Dynamic Fund Plc

Emerging Market Growth Fund Plc

F.I.T. Investment Trust Ltd (x)

Falcon Market Fund Plc

Framlington Investment Mgmt (Ireland) Ltd

Frank Russell Investments (Ireland) Ltd (x)

ISLE OF MAN (SIB RECOGNISED)

CMI Fund Managers (IoM)

Mercury Fund Managers IoM Ltd

Quilter Intl Mngt (IoM) Ltd

Sun Life Management (IoM) Ltd

Ulster Bank Global Funds Plc

Unibank Scandinavian Fund Ltd

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

Jupiter Tyndall (Jersey) Ltd

Lloyds Private Banking (CI) Ltd

Lombard Odier (Jersey) Ltd

LUXEMBOURG (SIB RECOGNISED)

Fidelity Funds - Contd.

Schroder International Selection Fd - Contd.

LUXEMBOURG (REGULATED)(**)

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OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

LONDON STOCK EXCHANGE

MARKET REPORT

Footsie dragged lower by US inflation worries

By Peter John

The market began to show its true colours yesterday as the bid premium from the water sector drained away.

With a depressing lead from the US and no impetus from domestic corporate events or economic statistics, UK equities did not have a chance.

The Footsie opened down 8.7 and essentially kept on falling. It rallied slightly from the lower depths achieved in the early afternoon but still closed 29 down at 3,746.7.

The rot set in late on Wednesday after Ms Susan Phillips, a Federal Reserve Board governor, pointed to the danger signs for US inflation.

Subsequently, the Dow Jones Industrial Average fell almost 36 points. The differential between the Dow and the Footsie is so great that under normal circumstances that kind of correction should be irrelevant to London.

However, UK investors are becoming increasingly skittish and in need of stronger and stronger adrenalin shots to keep their nerves.

A £1.5bn takeover offer by Scottish Power earlier in the week may have sparked off a bid war and sent the price of Southern Water soaring by 45 per cent. But it was barely enough to get the rest of the market out of bed.

By yesterday, it was almost as though the bid had never happened. Some potential targets within the water sector were trading higher but the broad market chose to focus elsewhere.

The comments of Ms Phillips had hit US Treasury bonds and also sent the dollar sharply lower. This knocked on to the UK government bond market, where the 10-year benchmark issue was down by more than half a point.

UK dollar earners were one element pulling the Footsie down and the blue chip index was dragged down 34.7 at worst. Revised gross domestic product figures from the US announced in the afternoon took some of the sting out of the inflationary concerns.

That, combined with some buying of Footsie futures towards the close, gave a slightly more solid floor to the market.

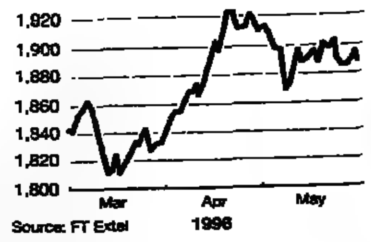
Nevertheless, the traders were uncertain. One leading arbitrage dealer commented: "With no bid in the system there is really nothing to go for. Yes, London is cheap. But why buy at the moment?"

As far as the bears are concerned London is not even cheap. ABN Amro Hoare Govett is talking Footsie down to 3,500. And Hoare economist Mr Chris Johns believes that it will only take one big rights issue for the market to appreciate that the UK's bid bonanza is history.

The FT-SE Mid 250 Index, which contains the majority of the biddable utilities, was not immune from the mark-down. It closed 14.8 lower at 4,500.0. Overall market turnover of 676.5m shares at 6pm was down on Wednesday's figure, when genuine customer business was worth £3bn.

It was difficult to find any crannies of optimism. There were only 23 risers in the Footsie. But Tomkins managed to delight with its dividend forecast and at least one broker has decided that British Gas should be taken away from the market's punishment corner.

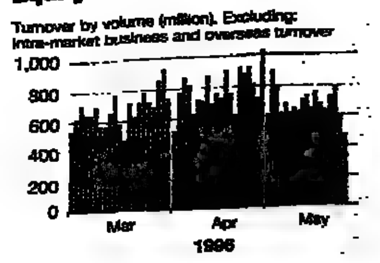
FT-SE-A All-Share index



Source: FT Extel

Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FT-SE 100	3746.7	−29.0
FT-SE Mid 250	4500	−14.8
FT-SE-A 350	1898.9	−12.8
FT-SE-A All-Share	1884.42	−11.87
FT-SE-A All-Share yield	3.80	3.77
FT Ordinary index	2790.3	−16.6
FT-SE-A Non Fins p/e	16.16	16.94
FT-SE 100 Fut Jun	3754.0	−31.0
10 yr Gilt yield	8.16	8.06
Long gilt/equity yld ratio:	2.22	2.22

Best performing sectors

1. Gas Distribution .... +2.6
2. Oil Exploration .... +0.6
3. Textiles & Apparel .... +0.5
4. Property .... +0.2
5. Electricity .... +0.1

Worst performing sectors

1. Pharmaceuticals .... −1.3
2. Banks: Retail .... −1.3
3. Insurance .... −1.1
4. Alcoholic Beverages .... −1.0
5. Media .... −1.0

Broker boost for Gas

British Gas bucked the poor market trend and moved strongly ahead in heavy trading, as SBC Warburg turned positive on the stock.

Warburg upgraded its recommendation from "hold" to "buy" saying, at current levels, that any downside risk is limited and the stock offers good long term value. The change of stance by Warburg followed reports of a positive recommendation from James Capel.

Shares in British Gas gained 5 to 189½p, the day's second best Footsie performance, while turnover of 23m made it by far the most actively traded stock in the premier index.

However, there are brokers which remain sceptical about the stock, including SGST. Analysts at the broker said yesterday they are retaining their cautious stance "pending further information from the regulator for the domestic gas market and the pipeline business."

Schroders upgrade

Among financial stocks, merchant banking group Schroders hardened 2 to 1350p, after Credit Lyonnais Laing upgraded its recommendation from "hold" to "buy".

The broker also upgraded profit estimates at the group, lifting the current year estimate by £25m to £255m and the following year's forecast by £40m to £270m. Analysts at the securities house cited the growth of new business in the fund management division. It set 1600p as a "fair price" for the shares.

Shares in Royal Insurance Holdings eased 3 to 427p, while those in Sun Alliance gave up 7 to 404p. Analysts at SGST were cautious on the groups' merger plans in the short term.

Mr Charles Landa at the broker said: "The merger is for defensive reasons, particularly cost reduction in the UK.Also, in the short term negative factors in the industry such as falling UK profits, still apply".

In addition, there will be a £175m reorganisation charge." However, he said he could see the long term strategic benefits of the merger.

Steel slides

The recent strength of sterling against its European counterparts looked to have caught up with British Steel, pushing the stock to the bottom of the Footsie rankings.

European steel prices are linked to the German currency and worries about shrinking export prices and volume sparked a clear run on sentiment yesterday. The shares came off 4¼ to 173½p and the downward pressure affected a whole raft of cyclical engineers.

Smiths Industries shed 14 to 700p, Rolls-Royce 3¼ to 225p and British Aerospace 6 to 886p.

News that the $1.4bn Gates Rubber deal was still on course, and not about to fall through as some analysts had begun to suspect, sent conglomerate Tomkins racing ahead.

The shares jumped to the top of the Footsie performance charts with a rise of 9 to 256p in 8.5m traded. The upsurge marked the end of a recent weak run, which culminated on Tuesday in a new low for the year of 247p.

Aside from the Gates news, the group's progress report was seen as an uneasy alliance of pluses and minuses. Tomkins' profits forecast disappointed and sparked modest downgrades. But the promised 17 per cent rise for the final dividend was seen as a clear bonus.

Tomkins stood at 270p two weeks ago, and the rebound for the shares appeared to have a knock-on effect at Williams Holdings, which gained 6½ to 336p.

United Utilities fell 15 to 580p, as the group reported full year figures yesterday.

Analysts indicated profits were in line with expectations. However, several registered some disappointment with the level of the dividend, while others said the company had yet to show, "more evidence of the benefits of being a merged utility."

On the other hand, Ms Angela Whelan at Credit Lyonnais Laing said she was pleased with both the reported profits and proposed dividend payout.

Poor sentiment in United Utilities also hit Hyder, which ended 14 lower at 755p.

International motor distributor Inchcape stood out – adding 5 to 296p as NatWest Securities voted the stock a strong value buy.

The broker is looking for a significant recovery in trading margins and claims the shares are at their cheapest for 15 years on a price/sales basis.

In the stores sector, Vendome dropped 18 to 627p amid further speculation as to its future. One analyst said it was being suggested that Richemont, owner of 70 per cent of Vendome, was considering placing a percentage of those shares rather than acquiring the remaining 30 per cent. The analyst said: "It's all very strange."

House of Fraser tumbled 7 to 178p after an annual meeting statement, which analysts said was disappointing in the main, with caution on gross margins.

Moss Bros soared 35 to 1060p following an upbeat annual meeting statement, while JJB Sports rose a further 5 to 805p with the forthcoming Euro'96 tournament maintaining interest in football.

Panmure Gordon reiterated its buy stance and increased its forecast for Carpetright in 1996-97 from £32½m to £34½m following an analysts' visit to Allied Carpets, which floats later this year. Carpetright was unchanged at 607p.

Selected property shares continued to find favour with Land Securities adding a penny to 636p and MEPC up 3 at 418p.

Some brokers have been talking about the sector's defensive qualities lately. Panmure Gordon expects signs of progress on net asset values and dividend streams when Great Portland Estates and British Land report annual results next month.

Channel tunnel operator Eurotunnel stayed on the upside, helped by talk that the French management's view of the group's debt restructuring negotiations was more positive than that of its UK counterpart. The shares added 4 to 91p for a two-day gain of almost 5 per cent.

In the spirits sector, Guinness dropped 8 to 468p. One analyst speculated that this could have been due to first quarter figures earlier this week from Canadian giant Seagram, which mentioned problems in Taiwan, an important market for Guinness.

Others suggested that it could be connected to the LVMH warning that cognac sales at Moet Hennessy, in which Guinness has a stake, were still in decline in some countries.

Building materials leader Redland tumbled 8 to 398p, following annual meeting confirmation that the group has been struggling against bad weather during the opening part of this year. The news sparked broker profit downgrades.

Unilever took a tumble, down 15 to 1211p, following a meeting between analysts and Proctor & Gamble in which it claimed to be winning market share in hair products and washing powders.

FINANCIAL TIMES EQUITY INDICES

	May 30	May 29	May 28	May 24	May 23	Yr ago	*High	*Low
Ordinary Share	2790.3	2806.9	2793.6	2795.5	2787.0	2522.8	2865.2	2696.7
Ord. div. yield	3.99	3.97	3.98	3.98	3.98	4.26	4.06	3.76
P/E ratio net	16.16	16.26	16.22	16.19	16.21	15.73	17.25	15.96
P/E ratio nil	15.96	16.06	16.01	15.97	15.99	15.49	17.09	15.76

Ordinary Share index since compilation: high 2865.2 19/04/96; low 49.4 26/06/40. Base Date: 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2803.0	2803.1	2800.8	2795.7	2788.6	2789.0	2790.5	2788.1	2789.0	2806.0	2787.3

	May 30	May 29	May 28	May 24	May 23	Yr ago
SEAQ bargains	32,007	33,638	33,936	31,188	32,393	24,383
Equity turnover (£m)†	-	2016.7	1305.2	1703.2	2197.8	1698.8
Equity bargains†	-	41,601	39,912	37,310	38,102	24,115
Shares traded (mil)†	-	640.2	474.3	602.1	789.2	775.7

†Excluding intra-market business and overseas turnover.

	May 30	May 29	May 28	May 24	May 23	Yr ago	*High	*Low
FT-SE AIM	1095.40	1096.20	1101.10	1094.20	1091.30	-	1094.80	965.88

*For 1996.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	349	Total Highs	95	Total contracts	43,904
Total Falls	934	Total Lows	41	Calls	22,660
Same	1,461			Puts	21,244

May 30 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	3777.0	3754.0	-31.0	3779.0	3737.0	14554	51981
Sep	3785.0	3761.5	-31.5	3785.0	3752.0	373	10695
Dec	3800.0	3790.0	-32.0	3804.0	3796.0	105	757

FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	-	4510.0	-15.0	-	-	0	4141

FT-SE 100 INDEX OPTION (LIFFE) (*3748) £10 per full index point

[illegible]

EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

* Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt cap £m	1996 High	1996 Low	Stock
-	F.P.	44.2	102	101	AIM Trust
100	F.P.	78.8	102	100	Aberforth Smlr C
-	F.P.	-	175	123	Biocompatible Unit
125	F.P.	13.4	124	118	†CA Coutts
-	F.P.	87.4	81	36	†Emtech
-	F.P.	24.0	116	58	†Epic Multimedia
-	F.P.	22.9	37½	31	Gartmore Select
-	F.P.	1.25	65	50	†Hercules Prop
-	F.P.	23.2	131	50	INVESCO E & I C
-	F.P.	5.20	5½	3½	†Just Group
200	F.P.	42.3	235	233	Lumonar
-	F.P.	112.8	251	220	Marden Group
-	F.P.	34.8	203	181	†Mulberry Group
-	F.P.	28.8	203	180	†Prism Rail
190	F.P.	2,370	229	205	Railtrack
72	F.P.	22.7	127	103	Recognition Sys
-	F.P.	5.58	98	43	†Reflec
-	F.P.	24.8	99	96	Renaissance US G
-	F.P.	18.8	136	96	Schroder Venture
-	F.P.	-	97	93	Taiwan Inv Tst C
-	F.P.	26.2	15	7½	†Thomas Potts
-	F.P.	2.95	54	43	†Tom Hosiona
84	F.P.	3.32	95	91	†Whitecross

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	May 29	% chg on day	May 28	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (31)	2326.87	+0.4	2317.24	1938.13	1.32	-	2530.73	1722.93
Regional Indices								
Africa (13)	3124.81	-0.4	3112.47	2598.21	2.31	42.73	3553.88	2272.74
Australasia (6)	2520.91	+1.2	2560.01	2233.73	2.53	29.30	2907.34	2096.51
North America (12)	2057.78	-0.2	2052.93	1710.65	0.65	73.16	2195.39	1489.94

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FT - SE Actuaries Share Indices — The UK Series

	May 30	Day's chge%	May 29	May 28	May 24	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3746.7	−0.8	3775.7	3760.2	3752.1	3340.6	4.00	2.15	14.39	78.35	1529.16
FT-SE Mid 250	4500.0	−0.3	4514.8	4504.4	4490.0	3674.8	3.35	1.75	21.35	82.92	1803.51
FT-SE Mid 250 ex Inv Trusts	4542.5	−0.3	4556.5	4543.7	4527.1	3662.2	3.45	1.80	20.14	90.05	1823.63
FT-SE-A 350	1898.9	−0.7	1911.7	1904.8	1900.0	1650.9	3.86	2.07	15.63	38.86	1594.10
FT-SE-A 350 Higher Yield	1829.4	−0.6	1841.3	1830.1	1820.6	1661.3	5.14	1.92	12.69	46.05	1275.34
FT-SE-A 350 Lower Yield	1975.7	−0.7	1989.4	1986.4	1986.8	1639.3	2.73	2.35	18.56	31.56	1366.62
FT-SE SmallCap	2228.28	−0.1	2230.82	2231.92	2233.89	1865.85	2.92	1.77	24.23	27.86	1625.32
FT-SE SmallCap ex Inv Trusts	2225.33	−0.1	2226.53	2227.88	2230.57	1844.30	3.08	1.86	21.86	29.37	1634.15
FT-SE-A ALL-SHARE	1884.42	−0.6	1896.29	1889.89	1885.87	1642.33	3.80	2.06	15.99	37.16	1596.46

FT-SE Actuaries All-Share

	May 30	Day's chge%	May 29	May 28	May 24	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(24)	3477.17	−0.8	3503.66	3527.19	3539.00	2678.21	3.86	1.83	17.71	79.03	1498.07
12 Extractive Industries(5)	4515.89	−0.5	4538.76	4548.87	4501.18	3774.09	3.58	2.50	13.98	109.19	1328.89
15 Oil, Integrated(3)	3489.27	−1.0	3522.82	3552.71	3575.88	2884.58	4.10	1.72	17.67	81.84	1541.88
16 Oil Exploration & Prod(16)	2502.04	+0.8	2485.68	2483.22	2482.26	2069.84	2.09	1.82	36.98	33.06	1505.80
20 GEN INDUSTRIALS(275)	2082.34	−0.6	2102.89	2104.65	2103.94	1972.76	4.06	1.80	16.24	35.72	1142.76

[illegible]

WORLD STOCK MARKETS

EUROPE

AUSTRIA (May 30 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (May 30 / Frs.)

[illegible]

CZECH REP (May 30 / Koruna)

[illegible]

DENMARK (May 30 / Kr)

[illegible]

FINLAND (May 30 / Mkk)

[illegible]

FRANCE (May 30 / Frs.)

[illegible]

GERMANY (May 30 / Dm.)

[illegible]

GREECE (May 30 / Drachma)

[illegible]

ITALY (May 30 / Lire)

[illegible]

NETHERLANDS (May 30 / Fls.)

[illegible]

NORWAY (May 30 / Kroner)

[illegible]

POLAND (May 30 / Zloty)

[illegible]

PORTUGAL (May 30 / Escudo)

[illegible]

SPAIN (May 30 / Pts.)

[illegible]

SWEDEN (May 30 / Kronor)

[illegible]

SWITZERLAND (May 30 / Frs.)

[illegible]

TURKEY (May 30 / TL Lira)

[illegible]

PACIFIC

JAPAN (May 30 / Yen)

[illegible]

AUSTRALIA (May 30 / Aus$)

[illegible]

HONG KONG (May 30 / H.K.$)

[illegible]

INDONESIA (May 30 / Rupiah)

[illegible]

MALAYSIA (May 30 / MYR)

[illegible]

NEW ZEALAND (May 30 / NZ $)

[illegible]

SINGAPORE (May 30 / S$)

[illegible]

SOUTH KOREA (May 30 / Won)

[illegible]

TAIWAN (May 30 / TW $)

[illegible]

THAILAND (May 30 / Baht)

[illegible]

NORTH AMERICA

CANADA

TORONTO (May 30 / Can $) 4 pm close

[illegible]

MONTREAL (May 30 / Can $) 4 pm close

[illegible]

AFRICA

SOUTH AFRICA (May 30 / Rand)

[illegible]

Prices supplied by Telekurs

NOTES – [illegible]

FT FREE ANNUAL REPORTS SERVICE

You can obtain the current annual/interim report of any company annotated with ♣. Please quote the code FT2496. Ring 0181 770 0770 (open 24 hours including weekends) or fax 0181 770 3822. If calling from outside UK, dial +44 181 770 0770 or fax +44 181 770 3822. Reports will be sent on the next working day, subject to availability.

INDICES

	May 30	May 29	May 28	1996 High		Low	
Argentina							
General(29/12/77)	(u)	18848.75	18804.79	19081.86	20/5	16628.61	19/3
Australia							
All Ordinaries(1/1/80)	2253.3	2264.2	2262.7	2326.90	28/4	2187.40	11/3
All Mining(1/1/80)	1073.2	1076.3	1072.4	1118.40	8/5	1004.70	16/1
Austria							
Credit Aktien(30/12/84)	392.28	392.74	393.08	394.34	22/5	352.78	2/1
Traded Index(2/1/91)	1129.98	1139.37	1142.51	1142.51	28/5	975.27	2/1
Belgium							
BEL20(1/1/91)	1741.02	1759.02	1773.28	1773.28	28/5	1574.00	2/1
Brazil							
Bovespa(29/12/83)	(u)	56657.0	57108.0	57108.00	28/5	43891.00	2/1
Canada							
Metals & Minerals(1975)	(u)	5391.75	5380.58	5524.80	9/5	4687.47	16/1
Composite♦(1975)	(u)	5209.78	5219.31	5239.98	22/5	4708.70	15/1
Portfolio§§(4/1/83)	(u)	2551.40	2555.32	2585.95	27/5	2327.39	12/1
Chile							
IGPA Gen♥(31/12/80)	(u)	5368.80	5409.72	5804.33	9/1	5015.28	8/4
Denmark							
CopenhagenSE(3/1/83)	403.43	406.71	407.07	407.07	28/5	368.40	2/1
Finland							
HEX General(28/12/90)	2024.24	2014.64	2044.96	2056.05	27/5	1651.67	10/1
France							
SBF 250(31/12/90)	1444.35	1449.92	1456.83	1456.83	28/5	1250.16	2/1
CAC 40(31/12/87)	2108.44	2117.10	2132.80	2146.79	30/4	1867.85	11/1
Germany							
FAZ Aktien(31/12/58)	891.72	901.55	902.02	904.03	23/5	818.56	2/1
Commerzbank(1/12/53)	2562.9	2588.2	2591.7	2601.90	23/4	2370.20	2/1
DAX‡(30/12/87)	2527.31	2551.45	2558.30	2570.78	21/5	2284.88	2/1
Greece							
Athens SE(31/12/80)	918.73	915.65	918.83	1017.96	4/3	901.03	29/4
Hong Kong							
Hang Seng(31/7/64)	11157.07	11200.56	11107.02	11594.99	16/2	10204.87	2/1
India							
BSE Sens.(1979)	3700.82	3740.45	3636.01	3869.87	24/4	2826.06	25/1
Indonesia							
Jakarta Comp.(10/8/82)	617.24	622.48	620.98	630.21	24/4	512.48	2/1
Ireland							
ISEQ Overall(4/1/88)	2518.41	2533.91	2526.54	2547.29	21/5	2234.81	2/1
Italy							
Banca Comm. Ital.(1972)	669.14	669.81	669.66	674.10	20/5	572.21	23/3
MIB General(2/1/95)	1134.0	1135.0	1135.0	1142.00	20/5	970.00	27/3
Japan							
Nikkei 225(16/5/49)	21886.35	22021.50	21944.53	22282.05	24/4	19734.70	13/3
Nikkei 300(1/10/82)	309.20	310.40	309.50	318.06	26/4	284.48	11/3
Topix(4/1/68)	1673.41	1680.86	1675.23	1718.09	28/4	1524.12	13/3
2nd Section(4/1/68)	2219.09	2211.37	2196.40	2243.29	2/5	1982.76	14/3
Malaysia							
KLSE Comp.(4/4/86)	1141.07	1137.95	1141.98	1189.54	30/4	983.16	2/1
Mexico							
IPC(Nov 1978)	(u)	3279.48	3318.35	3382.88	22/5	2738.98	8/3
Netherland							
CBS TtlRtnGen(End 83)	641.8	644.3	646.3	646.30	28/5	558.50	2/1
CBS All Shr(End 83)	380.8	382.2	383.6	383.60	28/5	328.70	2/1
New Zealand							
Cap. 40(1/7/86)	2048.01	2042.09	2046.66	2103.09	4/1	2042.69	29/5
Norway							
Oslo SE(Ind)(2/1/83)	1432.12	1436.67	1428.88	1444.72	29/4	1269.68	30/1
Philippines							
Manila Comp(2/1/85)	3286.30	3285.08	3247.76	3296.30	30/5	2876.97	2/1
Portugal							
BVL 30(4/1/93)	1895.69	1876.39†	1873.08	1895.69	30/5	1602.81	2/1
Singapore							
SES All-S'pore(2/4/75)	590.57	589.71	588.79	616.37	5/2	553.89	2/1
South Africa							
JSE Gold(28/9/78)	2023.9♥	2030.4	2011.8	2030.40	29/5	1348.40	2/1
JSE Ind.(28/9/78)	7894.4♥	7905.7	7867.4	8739.30	25/1	7723.28	20/5
South Korea							
KoreaCompEx**(4/1/80)	898.56	894.29†	908.21	989.84	7/5	838.87	13/3
Spain							
Madrid SE(30/12/85)	361.71	364.14	365.01	365.61	28/5	328.76	11/1
Sweden							
AffarsvardnGen(1/2/37)	1957.6	1976.6	1997.9	2005.50	20/5	1706.68	22/1
Switzerland							
Swiss Bk Ind(31/12/58)	1717.81	1725.90	1735.43	1779.54	26/4	1518.19	17/1
SBC General(1/4/87)	1211.97	1219.01	1226.47	1258.88	26/4	1114.47	25/1
Taiwan							
Weighted Pr.**(30/6/66)	5992.92	5976.43	5959.54	6182.70	29/4	4690.22	5/2
Thailand							
Bangkok SET(30/4/75)	1311.91	1302.20†	1308.20	1415.04	8/2	1247.78	13/3
Turkey							
Istanbul Comp.(Jan 1986)	61941.8	60414.8	58076.4	72066.60	8/4	38779.30	2/1
WORLD							
MS Capital Intl(1/1/70)	773.3*	772.6	776.3*	780.30	22/5	725.90	15/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	1679.37	1692.00	1699.17	1699.17	28/5	1504.40	11/1
Euro Top-100(26/6/90)	1437.39	1445.60	1449.22	1458.28	26/4	1333.01	11/1
HSBC JC Drgn(31/12/88)	(u)	378.27	377.69	383.16	16/4	344.19	2/1
ING Bmgs Emg(7/1/92)	161.54	161.68	161.54	164.14	14/5	147.35	2/1

US INDICES

Dow Jones [illegible]

NASDAQ Comp	1225.63	1238.30	1247.81	1249.85 (23/5)	988.57 (15/1)	1249.85 (23/5/96)	54.87 (31/10/72)

DJ Ind. Day's high [illegible] Low [illegible] (Theoretical)
Day's high [illegible] Low [illegible] (Actual)

■ RATIOS

	May 24	May 17	May 10	Year ago
Dow Jones Ind. Div. Yield	2.15	2.17	2.20	2.58
	May 29	May 22	May 15	Year ago
S & P Ind. Div. yield	1.86	1.83	1.86	2.21
S & P Ind. P/E ratio	22.38	22.71	21.98	18.77

■ NEW YORK ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Change on day
K-Mart	5,844,800	11¾	+⅛
AT & T	4,000,700	64⅛	+½
Texas Insts	4,009,200	53¾	-⅜
Coca Cola	3,837,900	45⅝	-⅛
Micron Tech	3,787,100	30¼	-⅞
Digital Equip	3,720,100	50½	-⅜
Wal-Mart	3,644,500	25⅝	+⅛
IBM	3,261,000	105⅞	-1⅝
Loral Space	3,152,600	16¼	-⅜
Fedl Natl	3,088,000	31½	+¼

■ TRADING ACTIVITY

● Volume (million)

	May 29	May 28	May 24
New York SE	347.764	341.095	331.287
Amex	22.582	24.614	34.178
NASDAQ	650.192	668.722	626.131
NYSE			
Issues Traded	3,158	3,170	3,122
Rises	834	784	1,168
Falls	1,521	1,562	1,059
Unchanged	803	794	895
New Highs	55	76	107
New Lows	26	31	23

■ S&P 500

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	668.60	666.00	-3.10	670.20	666.00	79,443	170,601
Sep	674.50	672.00	-2.90	674.95	672.00	3,968	24,726

■ NIKKEI 225

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	21870.0	21890.0	-140.0	22010.0	21870.0	17,142	263,852
Sep	21970.0	21940.0	-120.0	22080.0	21940.0	5,963	66,964

Open interest figures for previous day.

INDEX FUTURES

■ CAC-40 (200 x index)

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
May	2108.0	2108.0	-25.5	2112.0	2085.0	37,041	16,397
Jun	2088.0	2085.5	-28.5	2090.5	2074.0	18,936	48,906

■ DAX

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Jun	2536.0	2540.5	-13.5	2542.0	2528.0	18,701	-
Sep	2553.0	2559.0	-12.5	2559.5	2548.0	260	-

■ OMX

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
May	1540.00	1538.00	-7.50	1542.00	1531.50	3,213	16,585
Jun	1542.50	1542.50	-19.0	1544.00	1542.50	90	1,045

■ SOFFEX

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Jun	3512.0	3506.0	-24.0	3515.0	3502.5	5,460	27,681
Jul	3511.7	3505.5	-18.3	3511.7	3511.7	41	2,719

Sat May 25: Taiwan Weighted Price 5908.41, Korea Comp Ex 911.76. Base values of all indices are 100 except Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SVL 30, SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./ Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7, JSE 20 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal, ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: May 30 - 2535.78 -12.75.

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♣ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

■ TOKYO - MOST ACTIVE STOCKS: Thursday, May 30, 1996

	Stocks Traded	Closing Prices	Change on day
Daikyo	11.2m	877	-4
Kobe Steel	8.2m	295	-6
Kanematsu Corp	7.9m	740	-10
Rhythm Watch	6.7m	543	+29
Daiichi Kgyo B	6.0m	1930	+20
Hitachi	5.1m	989	-21
Towa Real Est	4.8m	515	[illegible]
Fujita Corp	4.7m	571	-19
Mitsubishi Ry	4.6m	467	+11
Bk Tk-M'bishi	4.4m	2580	-10

4 pm close May 30

NEW YORK STOCK EXCHANGE PRICES

[illegible]

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close	Chg
93	82¼	BankAm B	6.00	7.1		z100	84⅝	84⅝	84⅝	-⅛
77½	61	BnkTst	4.00	5.3	13	2279	75⅞	73¾	75¼	+⅞
51	42	Bckys	1.06	2.3	9	7	46¾	46½	46¾	-¼
37⅛	28½	Bard (C R)	0.64	1.9	20	883	32⅞	32⅜	32⅞	
51⅞	35	Barnes Grp x	1.80	3.7	12	10	48⅝	48⅝	48⅝	
64⅜	55¼	BarnBk	2.16	3.4	11	948	63¼	62⅝	62⅝	+⅛
32⅞	26⅝	BrckGd x	0.12	0.4	39	9251	31⅜	31⅛	31⅛	+⅛
19⅝	14⅜	Barry(RG)			20	202	19¼	19	19¼	+⅛
11⅝	8½	BattlMt	0.05	0.6	875	1583	8¾	8⅝	8¾	
44½	36⅛	Bausch x	1.04	2.3	22	3564	u44½	43⅛	44½	+1
47½	39¾	Baxter	1.21	2.8	18	3282	44⅜	43⅞	44	
43⅛	26	BayNtwks			38	34075	29½	28⅞	29	-⅛
29⅞	26⅛	Bay St Gas	1.54	5.9	12	106	26⅝	d26⅛	26¼	-⅛
40⅞	23¾	BBN				8 1095	27	24⅞	25½	-⅞
22¾	20⅛	Bd Tr 1538	1.56	7.7		18	20½	20⅜	20⅜	
8½	7¾	BEA IncFd	0.72	9.0		66	8⅛	8	8	
9⅜	8½	Bea Strat	0.81	9.3		34	8⅞	8¾	8¾	
24⅞	17¼	Bear Strns	0.57	2.4	8	1693	24⅛	23⅞	24	
44½	41	BearStPfA	2.75	6.4		3	42¾	42¾	42¾	
33¾	24	Bearings	0.56	2.0	16	210	28⅞	28½	28½	-⅛

[illegible]

Continued on next page

4 pm close May 30

NYSE PRICES

1996 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
Continued from previous page										
63⅞	50½	SchPl	1.32	2.2	23	8087	59⅜	58½	58⅞	+¼
91⅛	65⅝	Schlmb x	1.50	1.8	30	9231	85⅞	83⅞	84½	-⅜
14½	9⅝	Schlr			3	890	11¾	11½	11¾	+⅛
27⅞	18⅝	Schwab(C)	0.16	0.6	24	6076	24⅞	24¼	24¾	+⅛
28⅝	22¾	SchwMaud			14	169	28	27⅞	28	-⅛
20⅞	13⅛	SciAtl x	0.06	0.3	49	1320	19¼	18⅞	18¾	+¼
21	17	Scotsman	0.10	0.5	12	130	20¾	20⅝	20¾	-¼
45	38⅛	Scripps x	0.52	1.2	26	123	45	44⅝	44⅝	-⅝
18⅛	14½	ScuddNAsF	0.02	0.1		39	15	14¾	15	
12½	11	ScuddrNEsF	0.16	1.3		88	12¼	12⅛	12⅛	-⅛
19¼	16	SeaCnB	0.70	3.7	2	z100	18⅞	18⅞	18⅞	
16	15	SeaC1.4625	1.46	9.7		5	15	15	15	
67¾	44¾	Sygate			22	18906	59⅜	57½	57⅞	-1¼
38⅝	31¾	Seagrm	0.60	1.7	23	4884	34⅞	33¾	34¾	+⅜
24⅝	17⅛	Seagull En			15	170	23	22⅝	22⅞	+⅛
38⅛	25	Sealed Air			25	280	35½	35¼	35½	+¼
53¾	38¾	SearR x	0.92	1.8	14	25844	51½	50⅝	50⅞	-⅜
22⅝	19⅛	SecCapStk	1.24	5.6	22	791	22¼	22⅛	22⅛	-⅛
13	11⅞	Seligm Sel	0.84	6.6		70	12⅞	12¾	12¾	
28¾	13⅝	Sensormat	0.22	1.2	15	1538	18⅛	17⅞	17¾	-¼
[illegible]	[illegible]	[illegible]	0.60	1.5	102	173	u39⅞	37⅞	39⅞	+1⅜
42¾	39	SequaB	0.50	1.2	108	16	41½	41	41⅜	+⅝
57⅛	38⅞	SarvCp	0.48	0.9	29	1657	58⅛	54½	58	+1
33½	28⅛	ShMdr	1.02	3.1	14	268	32⅞	32½	32¾	+⅛
[illegible]	4½	[illegible]			11	2501	5⅝	5½	5⅝	+⅛
48¼	28½	SBSTlem			9	2803	41½	40⅝	41½	+⅝
15⅛	10⅝	Shaw Ind	0.30	2.3	30	1238	13¼	13	13⅛	
12⅞	10⅝	Shelby Wil.	0.28	2.4	14	3	11½	11½	11½	
[illegible]										

- T -

[illegible]

- U -

[illegible]

- V -

[illegible]

- W -

[illegible]

- X - Y - Z -

[illegible]

AMEX PRICES

4 pm close May 30

[illegible]

NASDAQ NATIONAL MARKET

4 pm close May 30

- A - B - C - D - E - F - G - H - I - J - K - L - M - N - O - P - Q - R - S - T - U - V - W - X - Y - Z -

[illegible]

AMERICA

Dow sails in choppy waters on rate fears

Wall Street

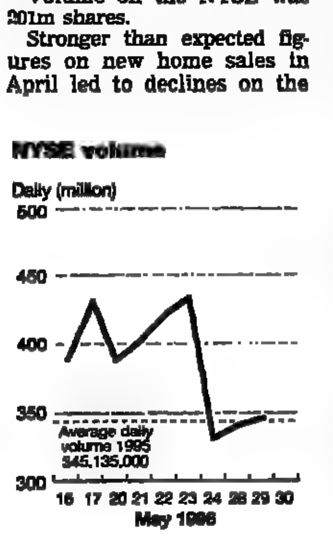
US equities were mixed in midsession trading as fears of higher interest rates led to volatile trading in the leading indices, while the Nasdaq composite posted gains, *writes Lisa Bransten in New York.*

At 1 pm, the Dow Jones Industrial Average was off 4.80 at 5,669.03, the Standard & Poor's 500 had fallen 0.06 at 667.87 and the American Stock Exchange composite was down 0.14 at 607.13.

Volume on the NYSE was 201m shares.

Stronger than expected figures on new home sales in April led to declines on the bond market where investors worried about the possibility of inflationary pressures appearing. The yield on the benchmark 30-year Treasury, which had held below 7 per cent for almost two weeks, rose to 6.957 per cent in early trading.

NYSE volume



Meanwhile, the Nasdaq composite added 3.17 at 1,228.80 as computer-related technology companies turned in a mixed performance and biotechnology issues climbed. The Pacific Stock Exchange technology index was 0.3 per cent stronger, while the Morgan Stanley index of biotechnology issues rose 0.9 per cent.

The two largest issues on the Nasdaq, both computer-related companies, went separate ways: Microsoft, the software company, rose $⅝ to $117½ and Intel, the largest manufacturer of semiconductors in the world, slipped $¼ at $71¼.

Borland International, a software company, fell $3⅞ or 22 per cent to $13⅝ after warning that it expected to report an operating loss in the first quarter because of weakness in desktop software.

Intuit, the financial software company, jumped $2 or 4 per cent to $50¼ after announcing that it planned to buy Interactive Insurance Services.

Rising biotechnology companies included Centocor, up $2⅛ or 7 per cent at $34½, Cephalon, which added $⅞ or 3 per cent at $26⅞, and Amgen, $⅜ stronger at $59⅞.

Circus Circus, the US gaming company, jumped $2⅜ or 6 per cent to $40⅞ in spite of reporting first quarter earnings of 42 cents a share, a cent behind analysts' estimates. Two broking houses, Smith Barney and Morgan Stanley, increased investment ratings on the company.

Boston Chicken recovered $½ of the $⅞ it had shed on Wednesday, bringing the shares to $30¼. The restaurant company said it would increase its stake in Einstein Brothers Bagels to 68 per cent through a private placement.

Canada

Toronto's best features were golds and financials as the banking results season continued, and bullion picked up.

The TSE 300 composite index was off 2.84 at 5,206.94 at midday, volume climbing from 41.15m shares to 50.53m, but gold and precious metals shares were running nearly a percentage point higher, and a rise of just 0.3 per cent in financial services cloaked the level of individual enthusiasm.

Of banks reporting yesterday, Toronto Dominion rose 40 cents to C$24.85 as its second quarter produced a net profits gain of 34 per cent. In natural resources, Greenstone Resources leapt C$2.70 to C$19.70 in heavy volume.

Mexico off 1.3% in early trade

An early fall on Wall Street prompted a similar pattern in **MEXICO CITY**, where the IPC index was down 43.30 or 1.3 per cent at 3,236.18 by midday.

SAO PAULO was inactive at midsession following Wednesday's 1.5 per cent decline. By midday the Bovespa index was off 6.41 at 56,251.

However, some analysts believed that the market could rebound later, helped by the fact that Mr Antonio Kandir had been confirmed as the new planning minister, replacing Mr Jose Serra who intends to run for office as the mayor of São Paulo. There was satisfaction that Mr Kandir had said at his first news conference that there would be no change in current economic policy.

CARACAS was little changed in midsession dealing although there had been some profit-taking early in the day. By midsession the IBC index was up 2.14 at 4,471.82. Some brokers felt that a period of profit-taking was now likely after a succession of nine all time highs which ended last Tuesday.

An early leader was Electricidad de Caracas, which was up 6 bolivars at 420 bolivars, on newspaper reports that the government had decided to allow Electricidad to lift its electricity rates which had been frozen since November 1995.

S Africa drifts lower

Equities generally drifted lower with most investors failing to be excited by the release of favourable first quarter GDP data. The industrial index lost 21 to 7,884, the gold index slipped 7 to 2,023, and the overall index eased 13 to 6,752.

Early in the day the government released statistics which showed first quarter GDP growth of 3.3 per cent, against expectations of 2 per cent. However, analysts remarked that the data had had little impact because almost all of the growth had come from the agricultural sector.

Features included Richemont, down R1 at R63.50 and De Beers off 25 cents to R141.

EUROPE

Bourses slide further, but close off their worst

Bourses closed off their worst. **PARIS** recovered from a session low on expectations that today's first quarter GDP figures would confirm that the economy was growing and the CAC-40 index lost 8.66 to 2,108.44 in turnover of FFr5bn.

Casino slid FFr5.20 to FFr214.60 after a delayed start, having announced a FFr3.4bn bond issue and the early redemption of the convertible bond issue due in January 1999.

Générale des Eaux went against the trend with a rise of FFr6 to FFr550; it said it had no interest in increasing its stake in Havas, down FFr1.80 at FFr440.

Alcatel Alsthom lost FFr4.80 to FFr471.60, in spite of announcing that it had signed a $18m contract to install the infrastructure for a digital mobile phone system in Egypt.

Eurotunnel did well for the second consecutive session, up 20 centimes, or 2.8 per cent, at FFr7.30, as its new pricing strategy for Le Shuttle was applauded.

FRANKFURT was upset by falls in the US bond and equity markets. Turnover was DM7.2bn, against DM6.5bn, as the Dax index fell 12.75 to an Ibis-indicated 2,535.78 after an official close of 2,527.31.

Allianz, a marked underperformer this year after some sixteen months on the upgrade, fell another DM32.50 to DM2,536; Ms Barbara Altmann, at B Metzler in Frankfurt, said that there was a rumour that the insurer was going to make a DM4bn rights issue.

FT-SE Actuaries Share Indices

May 30								THE EUROPEAN SERIES
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1681.68	1681.05	1680.91	1680.05	1679.67	1679.83	1679.57	1679.37
FT-SE Eurotrack 200	1727.86	1727.01	1726.26	1725.61	1724.46	1725.02	1724.91	1726.50

	May 29	May 28	May 24	May 23	May 22
FT-SE Eurotrack 100	1692.00	1699.17	1688.85	1690.78	1687.92
FT-SE Eurotrack 200	1732.47	1734.50	1723.81	1726.13	1728.13

Base value 1000 (26/10/90) High/day: 100 - 1682.29; 200 - 1728.65 Low/day: 100 - 1677.76 200 - 1716.18 † Partial

In steels, Preussag duly produced a drop in first half profits and fell another DM4.05 to DM394.45, although it said the second half would be steady. Metallgesellschaft dropped 70 pfg to DM28.30 on lower first half profits, and news that a former subsidiary was filing a DM100m suit against the group.

AMSTERDAM was excited by ING, but the general tone was disappointing as the AEX index slipped 1.39 to 565.03.

ING, however, rose Fl 2.00 to Fl 138.70. The financial services group surprised analysts with first quarter profits well in excess of expectations, although it warned that such strong growth was unlikely to be maintained for the rest of the year.

ABN Amro followed in the wake of ING, up Fl 1.40 at Fl 91.80. Dollar sensitive stocks did less well, as the US currency weakened, with Royal Dutch, for example, off Fl 2.70 to Fl 257.50.

ZURICH contemplated another fall in its bond market and equities reacted accordingly, the SMI index falling 20.5 to 3,537.7. In rate-sensitive insurers, the focus moved to Winterthur registered, down SFr10 at SFr734, and Swiss Re, off SFr13 at SFr1,203.

MADRID saw late institutional buying in Repsol which allowed the oil major to overturn earlier losses, and close Pta25 higher at Pta4,445 although the general index fell another 2.43 to 361.71.

Brokers, however, noted that Repsol, which faces the politically inspired replacement of its chairman next week, had been on a downtrend since March, falling by about 9 per cent against a rising trend in the market as a whole.

LISBON continued to push Portugal Telecom ahead of the second stage of its privatisation on June 11. The BVL index added 19.30 to 1,895.69 as PT rose Esc152 to Esc3,851, off an all-time high of Esc3,875.

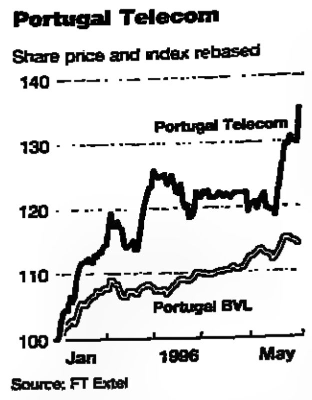
Dealers said that foreign institutions were taking positions in PT in the pre-registration period. Estimates suggest that requests for shares in the utility had exceeded supply by a factor of six to one.

MILAN saw ENI came off an early high on profit-taking following its recent gains. The Mibtel index lost 86 to 10,647, and the Comit 0.67 to 669.14, but ENI remained in positive territory at the end of the day, up L108 at L7,500 after a session high of L7,690.

STOCKHOLM lost nearly a percentage point, the Affärsvärlden General index coming down 19.0 at 1,957.6. Investor went ex its special Scania dividend and Astra A fell back further, SKr4 to SKr304, in a reaction following recent enthusiasm for the pharmaceutical group's New York share quotation.

COPENHAGEN dumped ISS after the cleaning group said that it had found accounting irregularities in its US unit which could cost it $100m. The shares dropped DKr32, or nearly 20 per cent to DKr131 after an early low of DKr110, and the KFX index fell 1.00 to 114.34 in turnover of DKr379m.

Portugal Telecom



Source: FT Extel

TEL AVIV tumbled nearly 5 per cent as uncertainty rocked the market following the likely victory of the right-wing party led by Mr Benjamin Netanyahu in the country's general election.

The Mishtanim index of the top 100 shares lost 10.24, or 4.84 per cent, to 201.38 in turnover of Sch193m against against Tuesday's Sch108m.

The day's most active issue was Bezeq Israel Telecom, which plunged 7 per cent to Sch817 in turnover of Shk18.7m; Koor Industries lost 5 per cent at Sch28,502.

VIENNA took profits in VA Stahl, the speciality steelmaker, which had soared to a life high on Wednesday, and closed down Sch8 to Sch379. The ATX index lost 9.41 to 1,129.96.

The day's best performer was *Wienerberger*, which outperformed with a gain of 2.3 per cent to Sch2,225, while EVN came out bottom of the list, shedding 3.4 per cent to Sch1,546.

WARSAW was unable to build on Wednesday's gain and the Wig index declined by 1.2 per cent to 11,738.3.

Analysts remarked that many foreign institutions might now stay out of the market in the run-up to Russia's presidential elections on June 16.

ATHENS managed to claw back an early loss to end the session with a modest rise. The general share index rose 3.08 to 918.73 in turnover of DKr6.1bn. One analyst remarked that some institutions were bargain hunting and were interested in companies which had good valuations and long-term prospects. However, an element of uncertainty was beginning to emerge ahead of the socialist party congress late next month.

Written and edited by William Cochrane and John Pitt

ASIA PACIFIC

Volume recedes again as Nikkei average loses ground

Tokyo

Investors were discouraged, rather than panicked by the overnight decline in US stocks and bonds, and volume fell as the Nikkei average lost ground, *writes Emiko Terazono in Tokyo.*

Led by small lot profit taking and technical selling, the 225 index fell 135.15, or 0.6 per cent, to 21,886.35 after moving between 21,836.21 and 21,991.16. Although bargain hunting by domestic institutions provided some support, profit taking and arbitrage selling were triggered by a decline in futures, due to hedge selling by domestic institutions.

Volume was 411m shares against 483m. Market participants cited the release of the Bank of Japan's tankan, or the quarterly survey of business confidence, on June 7 and the June 14 futures and options settlement as factors preventing them from accumulating positions.

The Topix index of all first section stocks lost 7.45 to 1,673.41 while the Nikkei 300 fell 1.20 to 309.20. Losers led gainers by 737 to 317 with 157 issues unchanged.

In London, the ISE/Nikkei 50 index edged up 0.86 to 1,460.76

The yen's rise against the dollar prompted selling of high-technology shares, already weak on pessimism surrounding lower demand prospects for semiconductors. Hitachi fell Y21 to Y989 and Toshiba Y6 to Y762. Consumer electronics companies were mixed with Sony unchanged at Y6,870 and Pioneer Electronic rising Y20 to Y2,370.

Buying by overseas investors supported telecoms issues. DDI, the long distance telecom company, rose Y28,000 to Y917,000 and Nippon Telegraph and Telephone Y1,000 to Y778,000.

Real estate developers and contractors, which had gained ground on Wednesday on hopes of a rise in revenues due to projects triggered by the sale of land owned by the former Japan National Railways, lost ground on profit taking. Daikyo, the most active issue of the day, fell Y4 to Y877, Mitsui Fudosan lost Y10 to Y1,370 and Fujita declined Y19 to Y571.

Some speculative stocks came under selling pressure, with Kanematsu, the trading house, down Y10 to Y740 and Kanematsu NNK, the plywood maker, losing Y50 to Y5,080.

In Osaka, the OSE average fell 78.70 to 23,255.79 in volume of 25m shares.

Roundup

Profit-taking hit **BOMBAY**, the BSE 30-share index closing 37.75 lower at 3,702.70 after 3,767.86 in early trade.

Traders said that the absence of foreign institutional buyers left the market without follow-up support.

Foreign and local brokers said that they were advising clients to stay on the sidelines until the new government was formed, and its policies known. They said that some local funds were sellers at higher levels and that retail investment demand was absent.

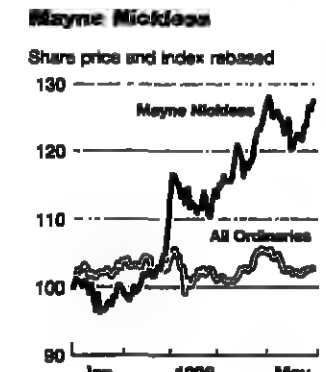
HONG KONG registered a fall of 43.49 to 11,157.07 in the Hang Seng index, up from a day's low of 11,097.48, but brokers put most of this down to HK Telecom, and Wharf going ex-dividend. Turnover improved from HK$4.09bn to HK$4.59bn.

Among index heavyweights, HSBC dropped 50 cents to HK$116, Hutchison was unchanged at HK$49 and Cheung Kong put on 25 cents to HK$56.25.

The China-related Shanghai Industrial, whose float was heavily oversubscribed, bucked the trend and surged to HK$9.15 in active trading at its debut, from the issue price of HK$7.28. However, in **SHANGHAI** itself, the B share index closed 0.430, or 0.9 per cent lower, at 48.542 on weak market sentiment, with few investors interested in trading.

SYDNEY was absorbed by Mayne Nickless, the health services and transport group, which tumbled by 40 cents, or more than 5 per cent, to A$7.25 after foreign institutions sold out on news that Mayne had sold its 25 per cent stake in Optus Communications.

Mayne Nickless



Source: FT Extel

Brokers said that foreign institutions had liked the Optus connection, as they had taken positions to get exposure to the domestic telecommunications industry.

The All Ordinaries index fell 10.9 to 2,253.3.

SEOUL's composite index ended 4.27 higher at 898.56 with the finance sub-index up 17.90 at 871.69 and construction 3.61 better at 456.92.

The key index was well off its best, having touched a high of 904.02 earlier in the day. Brokers said foreign selling of Samsung Electronics near the close pushed the composite down: Samsung closed at Won65,100, down Won2,200 after an earlier rise to Won70,400.

BANGKOK enjoyed institutional buying of blue chips like Siam Cement and Bangkok Bank as the SET index rose 9.71 to 1,311.91, in turnover of Bt5.5bn.

Sentiment, however, was muted after the Bank of Thailand released trade figures which showed that the country's current account deficit had widened to Bt35.5bn in April, compared with a revised March figure of Bt23.4bn.

TAIPEI moved up as rises in certain raw materials helped to boost the textile sector. The weighted index rose 16.49 to 5,892.92, but turnover fell to a two month low.

WELLINGTON witnessed light trading as the NZSE-40 capital index added 5.92 to 2,048.01.

Lion Nathan remained in favour, gaining 4 cents to NZ$3.55, while Radio Pacific saw speculation that it could be a takeover target. The shares reached a session high of NZ$3.61 before retreating on profit-taking to close down 3 cents at NZ$3.49.

KARACHI was driven higher by speculative buying of a number of blue chips. The KSE-100 index rose 25.96 or 1.5 per cent to 1,736.97.

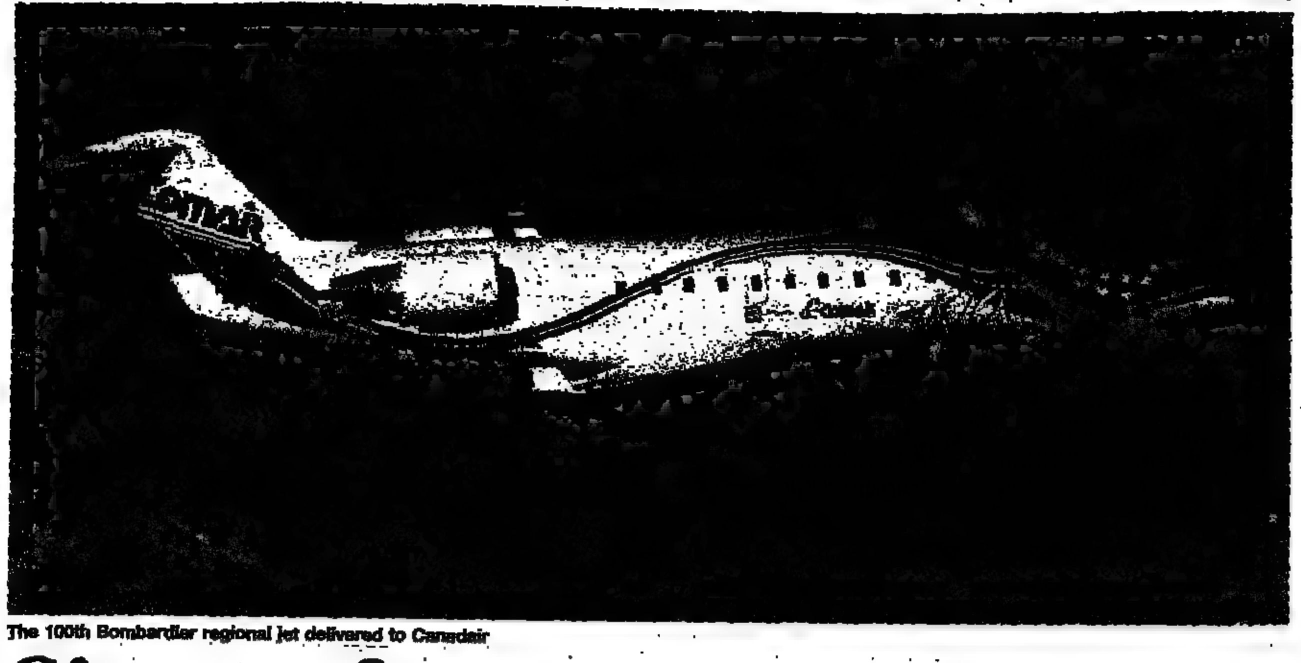
JAKARTA fielded falls in heavyweight stocks, Telkom losing Rp50 at Rp3,575 and Sampoerna Rp350 at Rp28,650 as the composite index fell 5.24 to at 617.24.

FT/S&P ACTUARIES WORLD INDICES

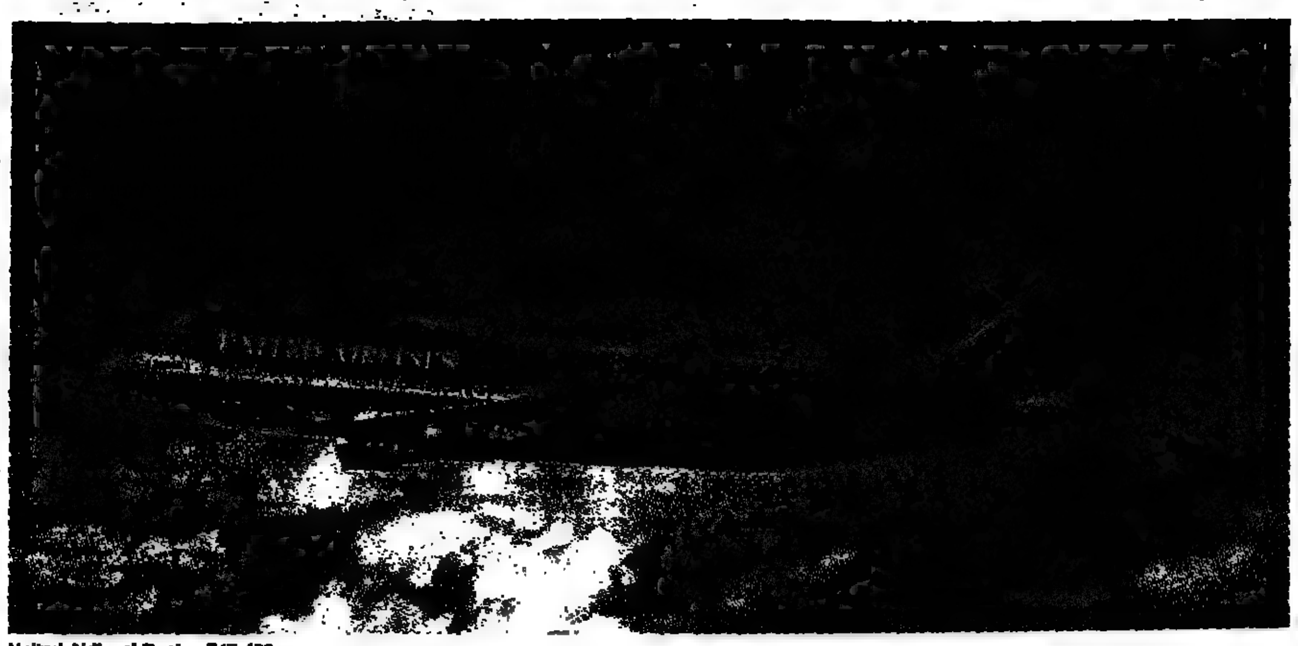
The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FT-SE International and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS	WEDNESDAY MAY 29 1996								TUESDAY MAY 28 1996					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (79)	206.18	0.6	203.14	143.10	167.24	173.14	-0.0	4.26	206.86	202.75	142.04	166.51	173.15	212.15	162.66	195.41
Austria (25)	191.05	0.2	185.43	131.32	153.48	153.39	0.0	1.53	190.74	186.98	130.97	153.54	153.43	199.28	168.11	195.05
Belgium (27)	209.15	-0.5	204.09	143.77	168.03	163.85	-0.7	4.06	210.25	206.11	144.37	169.24	164.99	215.81	186.05	196.27
Brazil (28)	169.01	-1.1	164.92	116.17	135.78	310.00	-1.0	2.09	170.82	167.45	117.29	137.50	313.17	171.06	123.07	140.30
Canada (99)	163.43	0.0	159.48	112.34	131.29	162.42	-0.2	2.34	163.38	160.16	112.18	131.51	163.77	164.64	134.14	141.16
Denmark (30)	294.49	-0.2	287.38	202.43	236.59	239.12	-0.4	1.87	295.19	289.37	202.69	237.61	240.03	305.17	275.65	284.69
Finland (23)	191.65	-1.6	187.02	131.74	153.97	191.28	-1.9	2.61	194.83	190.99	133.78	156.83	194.69	276.11	171.73	212.48
France (97)	194.32	-0.5	189.62	133.57	156.11	159.39	-0.6	3.01	195.19	191.35	134.03	157.12	160.34	198.39	167.70	185.84
Germany (60)	167.33	-0.3	163.28	115.02	134.43	134.43	-0.5	1.86	167.87	164.56	115.26	135.12	135.12	174.36	153.83	154.77
Hong Kong (59)	438.04	0.5	427.45	301.10	351.91	435.20	0.6	3.27	435.71	427.12	299.17	350.72	432.62	451.19	348.81	365.55
Ireland (16)	277.45	0.4	270.75	190.72	222.90	250.40	0.2	3.42	276.31	270.86	189.72	222.41	249.07	280.08	226.91	226.96
Italy (59)	82.99	0.8	80.98	57.04	66.67	96.51	0.7	2.27	82.35	80.72	56.54	66.29	95.83	84.53	67.22	74.11
Japan (481)	154.69	0.3	150.96	106.33	124.28	106.33	0.4	0.72	154.24	151.19	105.90	124.15	105.90	164.68	137.75	153.57
Malaysia (107)	554.87	-0.4	541.46	381.41	445.77	534.53	-0.2	1.67	556.86	545.88	382.36	448.24	535.46	585.09	425.77	507.72
Mexico (18)	1282.42	-1.3	1251.15	886.40	1036.30	10468.70	-0.9	1.35	1309.82	1284.00	899.36	1054.33	10566.69	1325.65	791.99	948.78
Netherland (19)	294.90	-0.2	287.77	202.71	236.92	232.76	-0.4	3.09	295.60	289.77	202.97	237.94	233.61	295.60	245.79	248.63
New Zealand (15)	78.50	-0.1	76.60	53.96	63.07	60.77	-0.2	4.52	78.61	77.06	53.98	63.28	60.93	85.49	76.26	81.65
Norway (35)	248.70	0.9	242.69	170.96	199.80	222.97	0.5	2.04	246.57	241.71	169.30	198.48	221.67	255.75	221.17	224.01
Singapore (44)	417.45	-0.5	407.37	286.95	335.37	271.61	-0.6	1.40	419.48	411.19	288.01	337.64	273.13	465.21	355.81	397.09
South Africa (45)	356.04	0.5	347.43	244.74	286.03	341.24	0.2	2.11	354.39	347.41	243.34	285.27	340.44	437.76	338.91	345.95
Spain (37)	177.40	-0.5	173.11	121.94	142.52	173.64	-0.2	3.20	176.35	174.85	122.47	143.57	174.04	179.85	145.15	147.26
Sweden (48)	347.35	-0.4	338.96	236.77	279.06	350.04	-0.6	2.30	348.68	341.81	239.42	280.67	352.23	356.08	256.60	257.65
Switzerland (38)	229.36	-0.6	223.82	157.66	184.27	180.92	-0.8	1.64	230.82	226.26	158.49	185.79	182.35	252.34	181.24	187.06
Thailand (46)	178.54	-0.1	174.23	122.75	143.44	175.75	-0.1	1.88	178.76	175.24	122.74	143.89	175.90	193.95	146.74	168.16
United Kingdom (201)	232.67	0.8	227.05	159.93	186.92	227.05	0.4	4.08	230.72	226.17	158.42	186.71	226.17	237.43	210.29	214.58
USA (626)	272.02	-0.6	265.45	186.99	218.64	272.02	-0.6	2.17	273.74	268.34	187.96	220.34	273.74	276.24	214.27	214.27
Americas (771)	248.60	-0.6	242.60	170.88	199.72	208.99	-0.6	2.17	250.14	245.21	171.75	201.35	210.29	252.40	196.45	196.56
Europe (715)	207.97	0.1	202.95	142.85	167.06	185.02	-0.2	3.03	207.79	203.69	142.67	167.26	185.30	211.35	187.00	187.87
Nordic (136)	298.09	-0.4	290.89	204.90	239.48	264.02	-0.6	2.25	299.24	293.34	205.47	240.87	265.63	302.70	246.36	250.75
Pacific Basin (831)	168.10	0.0	164.04	115.55	135.05	117.72	0.3	1.17	167.62	164.32	115.10	134.93	117.31	177.01	148.96	163.04
Euro-Pacific (1546)	184.61	0.2	180.15	126.90	140.31	143.21	0.1	2.05	184.35	180.62	126.51	148.01	143.05	190.57	166.51	173.29
North America (725)	265.29	-0.6	258.88	182.36	213.15	264.64	-0.6	2.17	266.90	261.64	183.26	214.84	266.27	269.33	208.74	209.74
Europe Ex. UK (514)	189.50	-0.3	184.92	130.26	152.24	159.83	-0.5	2.47	190.10	186.36	130.53	153.02	160.65	192.67	168.29	169.20
Pacific Ex. Japan (350)	292.19	0.2	285.15	200.85	234.74	251.53	0.1	3.04	291.48	285.74	200.14	234.63	251.27	296.68	243.59	254.86
World Ex. US (1736)	185.95	0.2	181.46	127.82	149.39	147.71	0.1	2.05	185.60	181.97	127.46	149.42	147.58	191.56	167.37	173.88
World Ex. UK (2161)	210.56	-0.3	205.47	144.73	169.16	178.02	-0.3	1.91	211.13	205.96	144.97	169.94	179.52	213.05	180.73	183.21
World Ex. Japan (1881)	244.35	-0.3	238.54	168.10	196.46	222.78	-0.4	2.51	245.31	240.47	168.43	197.46	223.71	248.40	204.89	204.89
The World Index (2362)	212.57	-0.2	207.43	146.12	170.77	183.50	-0.2	2.10	212.93	208.74	146.21	171.40	183.90	214.70	183.83	185.96

NORTH AMERICAN AEROSPACE



The 100th Bombardier regional jet delivered to Canadair



United Airlines' Boeing 747-400

Signs of recovery light up the sky

Aircraft manufacturers are doing well while airline profits have risen sharply. But Europe's Airbus remains a strong contender, writes Michael Skapinker

Last year, Boeing of the US, the world's biggest aircraft manufacturer, cut its staff numbers by 10,000 to 109,000. This year, it is taking on 8,000 new employees.

In 1994, Boeing suffered the indignity of selling fewer aircraft than Airbus Industrie, its European rival. It was the first time that Boeing had fallen to second place since the advent of the jet age.

Last year, Boeing won back the top slot, taking 346 orders to only 106 orders for Airbus. Europe's humiliation was compounded when McDonnell Douglas of the US outstripped Airbus by taking 110 orders.

Mr Ron Woodard, president of Boeing's commercial aircraft group, said at the beginning of 1996: "I expect this year to be good. Our goal is to increase order volume in 1996 over 1995." He said Boeing wanted to increase its worldwide market share to 67 per cent from 60 per cent. In March, Boeing said it would increase production rates in 1997 of its 737, 767 and 777 models.

Not only are US aircraft manufacturers having a good run; airlines are doing better than they have for a long time. Airline profits rose sharply in the first quarter of this year, exceeding analysts' expectations.

Add to this the fact that whenever a regional aircraft manufacturer runs into difficulties – as Fokker of the Netherlands did earlier this year – the first company mentioned as a possible saviour is Bombardier of Canada, a highly-respected maker of small aircraft, which decided, in the end, not to acquire the Dutch group.

There are, nevertheless some shadows over the North American aircraft and aviation industry. While aircraft orders and deliveries are rising, they are still well below the levels of the late 1980s and early 1990s. Boeing's 346 orders last year compare with the 883 it won in 1989 and the 503 it collected in 1990.

Boeing's staff numbers are likely to rise to about 120,000 this year. But this is far lower than the 160,000 the group employed in the late 1980s before the recession and the Gulf War severely damaged the industry.

And while McDonnell Douglas moved into second place in the order table last year, many in the industry still doubt that it has a future as a manufacturer of civil aircraft.

Political tensions between the US and China have led to several setbacks in the efforts of US manufacturers to consolidate their position in the world's fastest-growing aviation market. In April, Mr Li Peng, China's prime minister, signed orders for $1.5bn worth of Airbus aircraft, rejecting bids by US manufacturers. The Chinese order of 30 Airbus A320s and three A340s virtually doubled the European consortium's share of the Chinese market.

Mr Li Peng compounded the damage when he indicated that China was likely to choose a European consortium as a partner for its new 100-seat jet project rather than Boeing. The European consortium, made up of Aérospatiale of France, British Aerospace and Alenia of Italy, looks set to provide the Chinese and other Asian partners with the technology to build a new regional jet for local markets.

The Chinese order for Airbus aircraft was in contrast to another sale last year, when strong lobbying by the White House ensured that US companies won a large contract from Saudia, the Saudi Arabian airline. The Saudis spent $7.5bn buying 61 aircraft from Boeing and McDonnell Douglas.

Mr Michael Sears, the newly-appointed president of Douglas Aircraft, McDonnell Douglas' commercial aircraft unit, says that state of inter-governmental relations between the US and other countries has an inevitable effect on companies' ability to sell their goods.

"When international politics comes down negatively against the US, even though we have the best product, we're not going to get the sale. If we don't have acceptable relations with those countries, it's going to be a problem for us and for Boeing," he says.

Airbus, which has over the past few years managed to win a third of world aircraft sales, is likely to pose an even stronger threat to Boeing and McDonnell Douglas in future years. It is likely to announce in the summer that it is to move towards being a fully-fledged company, abandoning its current status as a *Groupement d'Intérêt Economique*.

As a GIE, Airbus makes no profits or losses in its own right. These all accumulate to the four companies which own it – Aérospatiale, Daimler-Benz Aerospace of Germany, British Aerospace and Casa of Spain. The four companies are also, under the existing system, entitled to receive contracts to manufacture aircraft components in proportion to the size of their stakes in Airbus.

As a company, Airbus would be able to award manufacturing costs to the most competitive company in a particular field, lowering its costs. This would enable it to offer lower prices when attempting to persuade airlines to buy its products rather than those of the US manufacturers.

Airbus also wants to become more competitive in another area in which the US dominates: the manufacture of large aircraft. Boeing is the only company in the world which makes aircraft large enough to carry 400 passengers; Airbus has no aircraft capable of competing with the Boeing 747-400.

This has allowed Boeing to offer discounts on smaller aircraft, where it competes directly with Airbus, and charge full prices for Boeing 747s, where airlines have no choice. Boeing is also planning to build a "stretched" version of the 747 which will carry more than 800 passengers.

Airbus has decided to develop its own large aircraft to compete with Boeing. The provisionally-named A3XX will carry 550 people. Developing the large Airbus will, however, cost more than $8bn, probably four times as much as Boeing will have to spend on expanding the 747-400. Some analysts doubt that the A3XX will ever be built.

It will certainly be difficult for Airbus to dislodge Boeing from its dominant position in large aircraft and there are many other areas in which US aerospace manufacturers remain extremely strong.

While Boeing might have lost some important Chinese business to the Europeans, the US company still has a far larger share of the market in China. Of the 400 commercial jets in service in China, about 200 are Boeings. As Mr Louis Gallois, chairman of Aérospatiale, said of the Airbus success in capturing this year's Chinese order: "It's a positive first step, but we're not jeopardising Boeing's position, which is very strong."

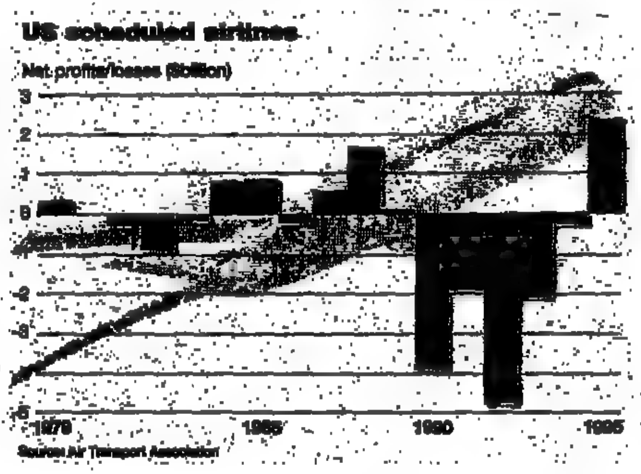
And however sceptical the aircraft industry is about McDonnell Douglas's future in the civil business, the group has shown that it is not going to give up without a fight. Mr Sears, the new head of the group's civil aircraft division, is one of McDonnell Douglas' most respected managers.

Mr Sears previously headed McDonnell Douglas's F/A-18 Hornet strike fighter programme, one of the most successful in the company's history. McDonnell Douglas is the world's biggest producer of military aircraft. Mr Sears said Mr Harry Stonecipher, McDonnell Douglas's chief executive, had told him to apply his defence industry skills to the manufacture of civil aircraft.

McDonnell Douglas and Boeing discussed a possible merger last year. An alliance between the two would have created a US defence and civil aerospace giant. Those talks failed, but some in the industry are convinced they have not heard the last of the idea.

US scheduled airlines

Net profits/losses ($billion)



Source: Air Transport Association

US airline industry: by Richard Tomkins in New York

Profits may go higher

Recently, airlines have been exceeding Wall Street expectations. Can this go on?

The US airline industry made more profits last year than at any time in its history. But can those profits last? That is the question the North American aerospace industry has to answer as it seeks to match manufacturing capacity with demand.

Since the US airline industry was deregulated in 1978, profitability has been notoriously elusive. After a short-lived boom at the end of the 1980s, the industry ran up $13bn worth of losses in the early 1990s, only returning to profit last year after five straight years in the red.

Recently, however, the industry has appeared to be on a roll. Share prices have rocketed as, with each passing quarter, airlines have delivered results exceeding Wall Street's expectations. The Air Transport Association, a US industry body, estimates that US airline industry profits will this year soar past last year's record-breaking $2.4bn to reach $3bn.

Part of the reason for the profits boom is the recent buoyancy of the US economy: more economic activity means more travel. But paradoxically, passenger numbers have not risen that much. According to the Air Transport Association, the number of enplanements rose by less than 4 per cent last year, from 528m to 548m.

Nevertheless, the passenger numbers disguise a more important trend. When demand was weak, US airlines filled empty seats by attracting passengers with low fares. Now demand has strengthened, they have been able to replace many of those passengers flying at give-away prices with passengers paying full fare.

Airlines have also been benefiting from their recent efforts to cut costs – particularly wages, which represent 34 per cent of total operating costs. United Airlines has reached an agreement under which all employees except the flight attendants have exchanged pay concessions for shares in the company. Delta Air Lines, in contrast, has saved money by cutting thousands of jobs.

Aside from cutting labour costs, airlines have profited from their decision to cut capacity by eliminating loss-making services. Continental Airlines brought relief to the industry by abandoning its financially disastrous low-cost operation, dubbed CALite. In turn, USAir and other airlines were able to ease back on their competitive response, reducing the number of services offering deeply discounted fares.

With fewer aircraft flying on many routes, and people paying higher fares to fill the remaining seats, it is little wonder that airline profits have been rising. But not everything has been going the industry's way: fuel costs have risen sharply, and last October US airlines lost their exemption from a transportation tax costing 4.3 cents per gallon of fuel.

In addition, some of the industry's recent profits could be described as a windfall. Thanks to the budget impasse in Washington, an excise tax of 10 per cent on airline tickets expired at the end of last year, and was not renewed. Some airlines passed on the savings to passengers, so attracting more traffic, while others pocketed the money for themselves. Either way, they enjoyed a profits bonanza – but one that may last only until the tax issue is resolved.

Meanwhile, the biggest threat to the large carriers remains the continued expansion of low-cost airlines such as Southwest Airlines and ValuJet. According to the US Department of Transportation, these carriers now compete on more than a third of domestic routes in the US: and although the recent crash of a ValuJet DC-9 in Florida may produce a hiccup in their growth, it seems unlikely to be either large or long-lasting.

At least one noted Wall Street analyst – Mr Julius Maldutis at Salomon Brothers – believes the US airline industry may be moving into a new golden age of profitability comparable with the one heralded by the introduction of jet aircraft in the late 1950s, which greatly increased productivity. On-line systems such as the Internet, Mr Maldutis says, will not only allow airlines to cut distribution costs by by-passing travel agents, but will also bring big revenue increases by allowing airlines to conduct auctions for unsold seats.

Yet the history of airline profitability suggest that the industry is inherently cyclical. According to Mr Larry Crawford, president and chief executive of Avitas, an aviation consulting company in Reston, Virginia, this explains why US carriers remain cautious about ordering new aircraft.

"The airlines got stung badly at the end of the last boom. The leasing companies ordered so many aircraft that as a result those for the airlines were delivered four years late," says Mr Crawford.

"That's a very risky way to buy because you don't know what the market's going to be like. It's an old saw that airlines order airplanes in the good times and take delivery in the bad times: that is because the order period is near the end of the boom period."

Airlines are concerned about the manufacturers' ability to produce aircraft in the required numbers over the next few years after recent cuts in capacity by Boeing and McDonnell Douglas. They are tentatively placing orders, says Mr Crawford, but they are reluctant to do more until manufacturers increase capacity instead of trying to string deliveries out.

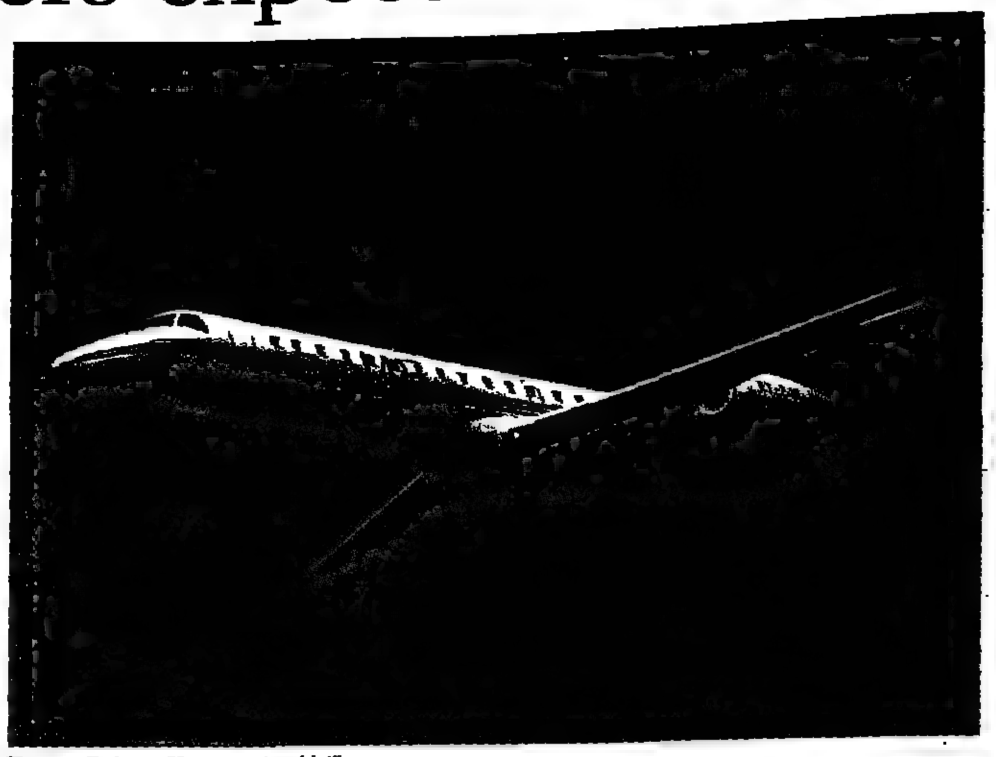
Meanwhile, another factor in the equation is the desire among several US carriers to hushkit older aircraft and get another 10 to 15 years' life out of them. These aircraft may not be as efficient as new ones, and maintenance costs may be higher, but they are probably written down to zero in the books and do not carry the high capital costs associated with new aircraft.

"This does not relieve airlines of the need to renew their fleets eventually," says Mr Crawford. "But they are hedging their bets. They will hushkit these older aircraft, and then they will begin to place orders. They are feeling for the next recession."

Regional aviation: by Bernard Simon in Toronto

Jet orders expected to soar

Faster and quieter than turbo-props, jets may soon form a bigger part of most airline fleets



The new Embraer 50-seat regional jetliner

Embraer, the Brazilian aircraft maker, cannily organised the US marketing tour of its new 50-seat commuter jet to coincide with last month's annual convention of the Regional Airline Association in Orlando, Florida.

Jets currently make up only about 3 per cent of North American regional airlines' fleet. But their share is expected to grow markedly. While the market for turbo-props is in the doldrums, regional jet manufacturers are girding up for a spate of orders.

Mr Noel Petrie, senior research analyst at Avitas Aviation, a Virginia-based consultancy, confirms that "a lot of the airlines want to go to a jet". As a result, he says, the market in used turbo-props "is heading for over-supply".

The days of propeller-driven aircraft on short, lightly travelled routes are by no means over. Turbo-prop manufacturers still offer a far wider variety of products – from 10 to 80 seats, with almost every size in between – to meet carriers' specific needs.

According to Avitas, North American airlines had placed orders for 205 turbo-props and had options on another 451 aircraft in February 1996. The Jetstream 41 led the way with 133 orders and options, followed by Sweden's Saab 2000 (112) and the Embraer 120 (103).

Mr Walter Coleman, the RAA's president, says that economics remains the main deciding factor in choosing a aeroplane. However, a combination of passenger preference and aircraft performance are persuading many carriers to take a close look at a new generation of regional jets.

Jets were given a perverse boost by the October 1994 crash of an ATR-72 turbo-prop aircraft near Roselawn, Indiana. The crash, which killed 68 people, appears to have had a more lasting impact than most other aviation tragedies.

Passengers shied away from airlines using turbo-prop equipment in the first half of 1995. All ATR models, which account for about one in seven seats on North American regional carriers, were shut out from most of the northern US and Canada for several months while they were fitted with new anti-icing systems.

The safety concerns have receded. But aircraft makers remain well aware that, given a choice, most passengers still prefer the smoother, quieter ride of a jet.

For example, Bombardier, the Canadian aircraft maker, claims that a new noise and vibration suppression system for its de Havilland Dash 8 turbo-prop makes the cabin so quiet "that passengers might easily mistake it for ... a jetliner."

Regional airlines are also discovering – as their predecessors did in the 1960s – that jets can broaden their horizons. While the turbo-prop range is typically limited to about 500-600 km, the new generation of regional jets can comfortably fly routes of more than 1,000 km.

Cincinnati-based ComAir, a Delta Airlines affiliate, has built up a fleet of 32 of Bombardier's 50-seat Canadair

> Given a choice, most passengers still prefer a quieter ride

Regional Jets (CRJ), with another 13 on order. The jet has enabled the airline to open new routes – for example, between Cincinnati and Tulsa, Oklahoma – which are beyond the range of its turbo-prop fleet.

The jets now serve about two-thirds of ComAir's destinations and carry some 35 per cent of its passengers.

Air Canada has used its fleet of 21 CRJs to take advantage of last year's "open skies" air traffic agreement between the US and Canada. The Canadian carrier has opened up several dozen new cross-border services, such as Toronto-Minneapolis and Ottawa-Chicago.

Bombardier has so far had the regional jet market to itself. It hopes to launch a 70-74 seat stretched version of the CRJ, known as the CRJX, later this year. However, Bombardier's North American sales have largely been confined to three customers – ComAir, Air Canada and Salt Lake City-based SkyWest. Mr Tom Appleton, executive vice-president at Bombardier's regional aircraft division in Toronto, says that "we'd like to have broader penetration".

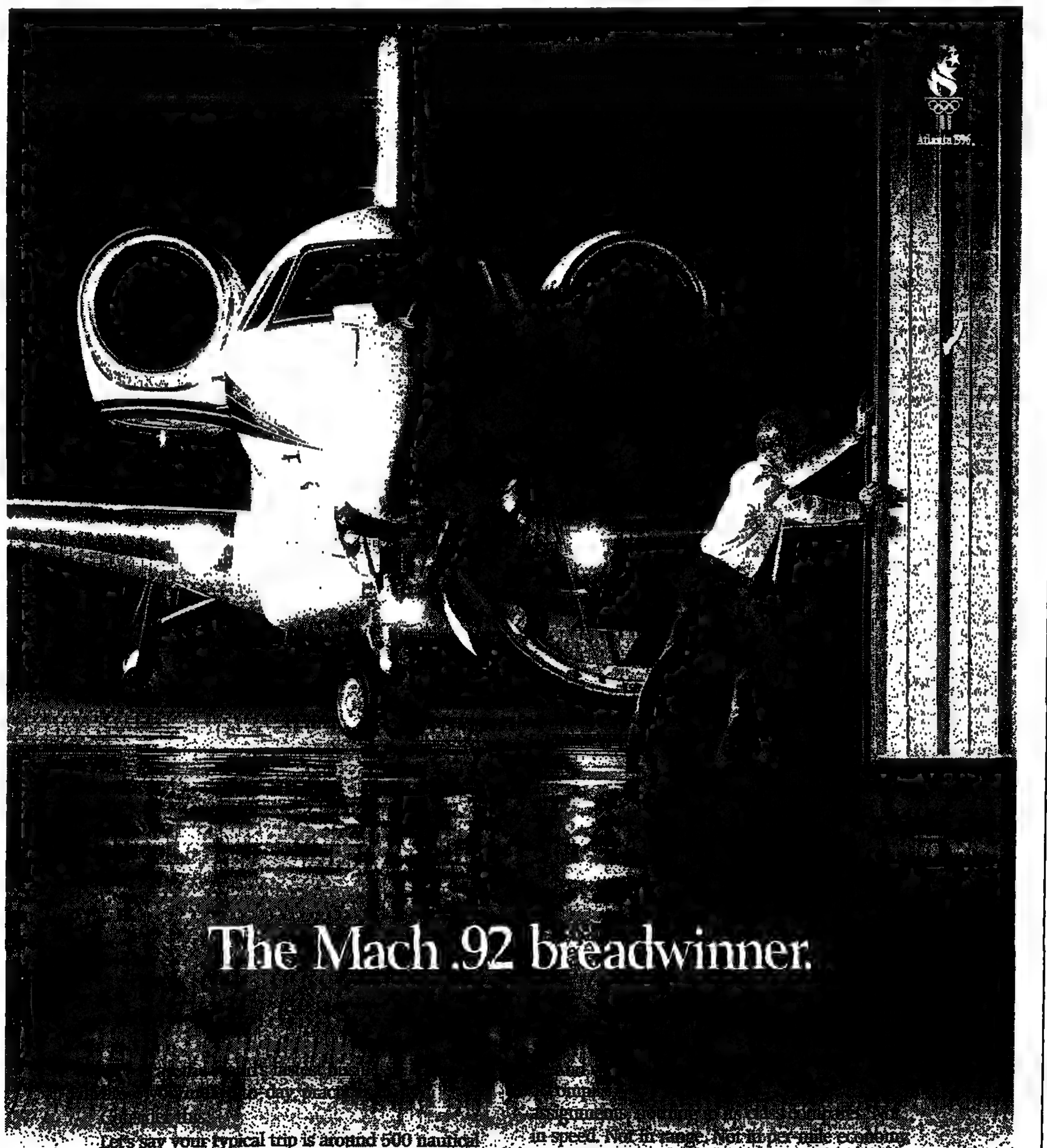
Orders from a number of other feeder airlines appear to have been delayed by disputes with pilots working for their main-line affiliates. The pilots want to keep the extra jobs for themselves.

The CRJ now faces competition from the new Embraer 145. The Brazilian aircraft's main attraction is likely to be price. According to Richardson Greenshields, a Toronto securities firm, an Embraer 145 sells for about US$14m, compared to US$18m for a CRJ.

Mr Jon Reider, a Richardson Greenshields analyst, predicts that the Embraer's main niche will be to replace turbo-props on short routes.

Bombardier says that its aeroplane is faster and can fly further. The CRJ also has a wider fuselage, allowing passengers to sit four abreast, against three in the Embraer.

However, if the two manufacturers are correct in their assessments of demand, the market may be big enough for both to prosper.



Commercial aircraft: by Christopher Parkes in Los Angeles

Years of plenty ahead

New aircraft worth more than $1,000bn are expected to be sold in the next 20 years

There is a single, grand assumption in the US commercial passenger jet industry which overrides all the tactical manoeuvrings of the two domestic rivals, Boeing and McDonnell Douglas. It is the conviction that the next 20 years will generate sales to airlines of new aircraft worth more than $1,000bn at current prices.

The principal influences, which, in turn override cyclical economic influences and variables such as fuel price fluctuations, include a growing appetite, in particular for wide-bodied aircraft, in Asia/Pacific markets, and high volume demand in North America, with more of a focus on shorter-range jets for domestic hub-and-spoke flights.

A more balanced mix will be called for in Europe, according to McDonnell Douglas estimates, which will generate demand for some 3,000-plus aircraft, valued at about $220bn.

While north American buyers will take delivery of almost 5,000 new aircraft over the 20-year forecast period, size requirements peculiar to this air-commuter market mean their share of total spending will be around $293bn. Deliveries to Asian buyers of about 4,000, mainly wide-bodied aircraft, will be worth far more than $400bn.

Well-established rapid economic development is the main driver in this region, which now boasts more than 85 passenger airlines. Fast-growing traffic on both internal and intercontinental flights is expected to lead to an increase of more than 4.5 per cent in the number of annual departures.

This compares with about 2.5 per cent in Europe, which is relatively well-served with road and rail links, and a figure approaching 3 per cent in the more mature US market.

By any measure, Boeing, which claimed a 70 per cent share of new passenger jet orders last year – leaving Europe's Airbus with just short of 15 per cent and McDonnell Douglas labouring with almost 10 per cent – seems set to continue as the greatest beneficiary of the expansive trend.

The influence of the Seattle, Washington-based group, which has historically averaged a 60 per cent stake in the market, and the emergence of Airbus have driven Douglas's share down from more than 20 per cent in the past five years.

Efforts are currently under way to revive Douglas, led by Mr Michael Sears, its president and formerly a senior executive in the group's successful military aircraft unit, who replaced the 63-year-old Mr Robert Hood in April. Renowned as a cost-cutter, and

> The new hirings are a sure indicator of management confidence

facing a reported 5 per cent costs disadvantage in relation to Boeing, he has started reviewing the division's outgoings.

He has also seconded one of his senior lieutenants, effectively full-time, to review ways of enabling the marque to compete in the long-range passenger jet market. Discussions with airline customers and the company's engineers are expected to result in a board review of a series of options in the early summer.

Projects include possible variations on the 300-passenger MD-11, either to stretch it to accommodate 25 per cent more passengers or to adapt it for longer-range excursions. Douglas is understood last year to have come close to suspending production of this flagship aircraft when it sold only six – half its planned production rate.

Meanwhile, Boeing appears both to be over the worst of the cuts – it recently started hiring new workers after more than five years of payroll contraction – and to be extending its influence in the key Asia/Pacific market.

Overseas orders accounted for almost 90 per cent of all bookings last year, with improving demand showing through for its newest and smallest jetliner, the 737, and the 777, still popular in Asia.

While there is probably an element of one-upmanship in the steady dribble of improving news out of Seattle, the new hirings are a sure indicator of management confidence that markets are moving again. Production rates, down from the 1991 peak of 38 aircraft a month to 20 late last year, are expected to exceed 25 units by mid-1997.

The improvement is not as great as might first appear, since a good part of the increase is due to efforts to catch up with a backlog which built up late last year because of a 10-week machinists' strike which caused Boeing to miss its target for 1995 deliveries by 29 aircraft.

And while that dispute is now settled, there are reasons to fear that it may have lessened Boeing's ability to maintain its crucial cost advantage over its weaker rival. One of the key causes of the stoppage was the group's strategy of outsourcing supply of components and fuselage parts from cheaper suppliers.

Tentative attempts to find another route to economies – through talks about possible links or even merger with McDonnell Douglas – proved unsuccessful earlier this year.

Now, as Mr Sears strives to close the costs gap and come up at least with a stop-gap variant of the MD-11 more appropriate to the most promising markets, he may find some comfort in the recent $18bn Pentagon deal which assures the future of the McDonnell Douglas C-17 transporter aircraft.

Reinforcement of profits at the group's successful military wing will provide an essential lift until he finds a way of keeping Douglas aloft under its own power.

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US rivals take on Rolls-Royce

The two main American groups will collaborate to secure engine orders from Boeing

That two of the top three aircraft engine manufacturers in the world should be American comes as no surprise. The US is easily the biggest aviation market in the world and the country has an unrivalled record of technical and engineering innovation.

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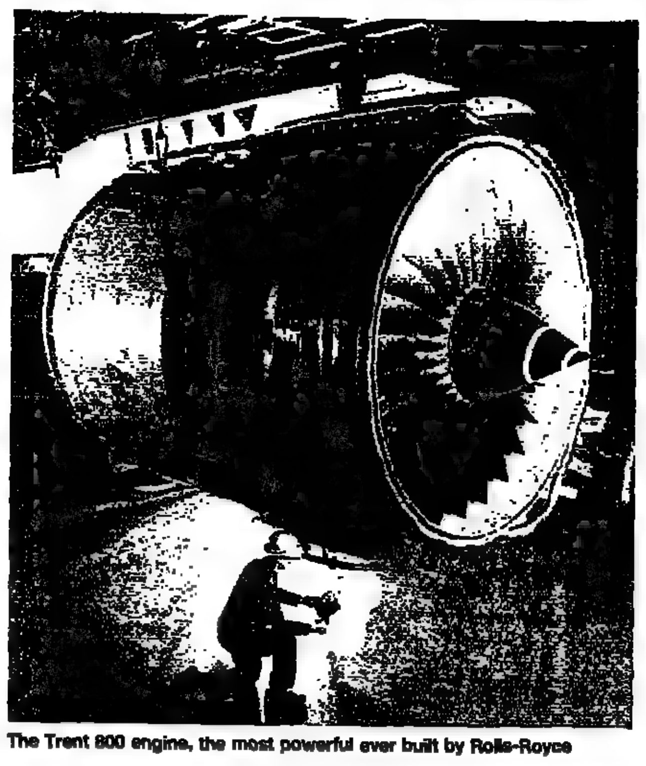

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Nevertheless, Rolls-Royce of the UK remains a substantial threat to the two biggest US aero engine manufacturers, General Electric and Pratt & Whitney. There has been frequent speculation over the past few years that Pratt & Whitney might swallow Rolls-Royce, making engine manufacturing a US preserve.

Instead, the two US groups have joined forces to fend off Rolls-Royce. GE and Pratt & Whitney announced in May that they were to collaborate for the first time ever on developing an engine for the new generation of Boeing "super-jumbo" aircraft which are due to enter service at the beginning of the next century.

The two US companies said they had been encouraged to form their joint venture by Boeing, the Seattle-based aircraft manufacturer. Together, GE and Pratt & Whitney look like an extremely powerful combination. They will be able to share development costs on the new engine, which they put at \$1.5bn.

To some analysts, it looked like Rolls-Royce was being marginalised by its two competitors. The UK company disagreed, however, saying it regarded the GE and Pratt & Whitney announcement as a compliment.

This is probably more than bluster on Rolls-Royce's part. Its Trent series of engines has been successful in capturing a number of important orders, particularly in Asia. Last year, Rolls-Royce won the contract to provide engines for most of the 77 Boeing 777s ordered by Singapore Airlines. Singapore had traditionally bought its engines from Pratt & Whitney.

Mr Cheong Choong Kong, Singapore's managing director, said the main reason for buying the Rolls-Royce engines was price. Mr Cheong said in an interview with the FT earlier this year: "We found that technologically there wasn't much of a difference between Rolls and Pratt & Whitney. The battle was mainly fought on the economics."

Nevertheless, the sale provided Rolls-Royce with a noteworthy Asian customer and put it in an even stronger position to win further customers in the region. At the beginning of this year, Malaysia Airlines also selected Rolls-Royce to supply the engines for its 15 Boeing 777s, although Pratt & Whitney won the order to provide the power for 10 Boeing 747-400s.

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Mr Chris Avery, aerospace analyst at Paribas Capital Markets, agrees that the Rolls-Royce engines are better suited to the "stretched" Boeing 747 than the GE90 engine or the Pratt & Whitney PW4000 series. This is because the GE90 and the PW4000 would have difficulty fitting under the wing of the new Boeing 747s.

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Collaboration is already a well-established practice in the world engine-making industry, with joint ventures involving the three engine giants as well as smaller manufacturers. Rolls-Royce has a joint venture company with BMW of Germany, making smaller engines.

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Two companies are seeking to be the top dog in the growing executive jet market

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Industry experts say a direct merger, even setting aside the obvious difficulties with anti-trust authorities, would effectively swamp McDonnell's civilian aviation operations. Removing overlapping products in the groups' catalogues, analysts reckon, would mean the end for several of the smaller group's aircraft and politically unacceptable job losses, especially in southern California.

The region, which has suffered its share of setbacks as a result of industry consolidation, has also taken a beating because of military base closures and contraction.

When, as is widely expected, the two come back to the negotiating table, the topic most likely to head the agenda is some form of association between the military operations. In the meantime, there are still accessible and less contentious objects of desire to be pursued.

In the months before news of the two companies' talks was leaked, Boeing is believed to have taken a hard look at Bell Helicopters while McDonnell was reportedly spotted sniffing round United Technologies, parent of Sikorski.

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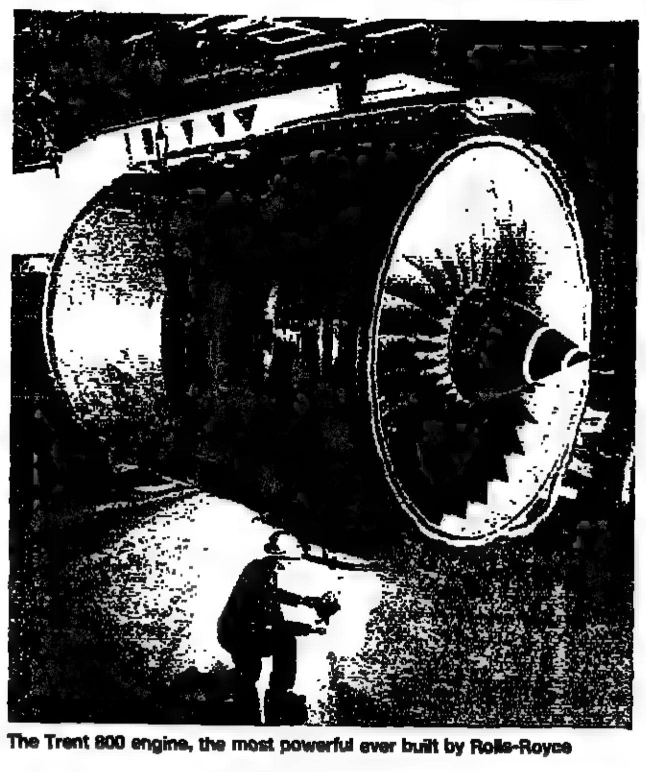

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It certainly gave McDonnell Douglas – a rival of Lockheed's in the competition to build a new strike aircraft for the navy – a headache. Mr Harry Stonecipher, McDonnell's chief, said that in a venture as important as the $750bn strike fighter, he would expect a major components and systems supplier – Loral is just that – to act as a partner and help him sell his products in Washington. This would not be possible under rival Lockheed's control, he said, hinting darkly that he might be obliged to blacklist Loral products.

The outburst brought into focus the greatest perceived weakness of McDonnell – and Boeing, for that matter – in a military aviation market where one-stop Lockheed has seized the initiative. The world's leading civil aviation group lacks clout in military aircraft and the associated electronics, while McDonnell is relatively weak in both its high-technology and its civil arms.

Industry experts say a direct merger, even setting aside the obvious difficulties with anti-trust authorities, would effectively swamp McDonnell's civilian aviation operations. Removing overlapping products in the groups' catalogues, analysts reckon, would mean the end for several of the smaller group's aircraft and politically unacceptable job losses, especially in southern California.

The region, which has suffered its share of setbacks as a result of industry consolidation, has also taken a beating because of military base closures and contraction.

When, as is widely expected, the two come back to the negotiating table, the topic most likely to head the agenda is some form of association between the military operations. In the meantime, there are still accessible and less contentious objects of desire to be pursued.

In the months before news of the two companies' talks was leaked, Boeing is believed to have taken a hard look at Bell Helicopters while McDonnell was reportedly spotted sniffing round United Technologies, parent of Sikorski.

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LEGAL NOTICES

In the High Court of Justice
No 002078 of 1996
Chancery Division
Companies Court

IN THE MATTER OF AMEY PLC
and
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated 15 May 1996 confirming the cancellation of the share premium account of the above-mentioned Company was registered by the Registrar of Companies on 24th May 1996.

DATED this 31st day of May 1996
ASHURST MORRIS CRISP
Broadwalk House
5 Appold Street
London EC2A 2HA
Ref: DHB
Solicitors to the Company

In the High Court of Justice
No 002168 of 1996
Chancery Division
Companies Court

IN THE MATTER OF RPS GROUP PLC
and
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated 15 May 1995 confirming the cancellation of the above named company's share premium account was registered by the Registrar of Companies on 23 May 1996.

Dated this 28th day of May 1996
Nabarro Nathanson
50 Stratton Street
London W1X 6NX
Tel. 0171 493 9933
Ref: FA/AOC/R829/34
Solicitors for the Petitioning Company

ARTS

Lost genius of the Holocaust

Antony Thorncroft discovers how Germany made the Dresden Music Festival such a success

"The Concentration Camp Composers" has a resonant ring to it, not least at the cash tills. Of course, this belated recognition of their talent is too late for most of the, mainly, Jewish composers who, as the cat's-paws of Nazi propaganda designed to fool the Red Cross, lightened the horrors of camps like Theresienstadt with concerts.

For Israel Yinon, an Israeli working in Germany, it has become a mission to promote this music. And not only the compositions of the camps. The earlier work of Haas, Krása, Klein and others is often ignored as it has not the plaintive historical frisson of their final pieces.

Four years ago Yinon came across the complete score of a short opera by Viktor Ullman, who died in late 1944 in Auschwitz, and who is now recognised as one of the greatest musical losses of the Holocaust. Ullman had written *Der Zerbrochene Krug* (The Broken Jug) in Prague in 1942, before his arrest. It was entrusted to a friend, stored and forgotten, and was the news-breaking event of this month's Dresden Music Festival.

Der Zerbrochene Krug is perfect festival repertoire. The text comes fully formed from the celebrated German Romantic writer Kleist, and its mix of light-hearted incident – *who broke the pot* (it was the Judge, while escaping from the maid's bedroom) – and political pointedness is satisfyingly correct.

Ullman devotes eight of the 45-minute opera to an overture in which a torrent of melodies, echoes of Hollywood movies and Broadway shows, promise a lyrical drama. In spite of some stilted sub-Richard Strauss scene-setting, the tunes finally arrive, and with the production confidently transposed to a 1920s German Expressionist setting, and with a 12-strong cast seizing their brief cameos with gusto, Ullman's opera was triumphantly premièred.

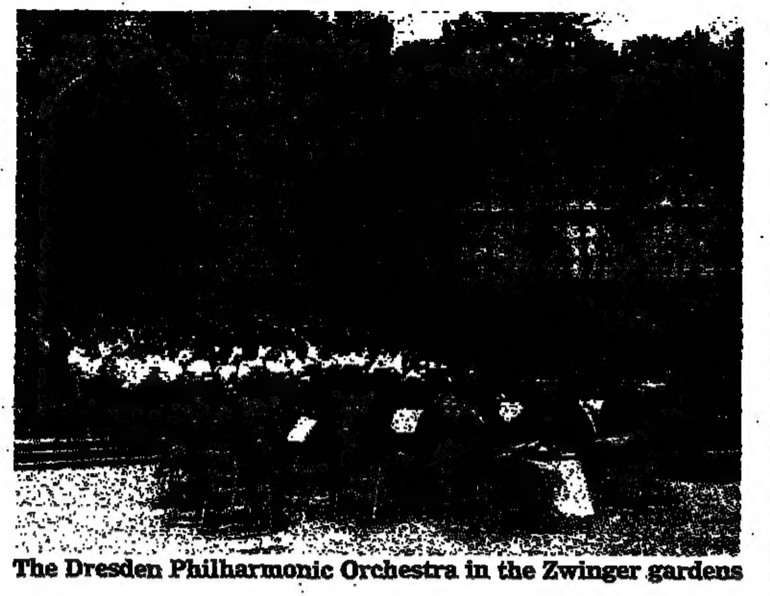
Der Zerbrochene Krug is a paradigm of its time – Jazz Age echoes in the parts for saxophone and banjo; sweeping emotional movie melodies – but Yinon's perseverance was well rewarded. The opera will be repeated at Weimar, which created the production, and play alongside another casualty of history, Martinû's one-act opera *Komödie auf der Brücke* (Comedy of the Bridge), written in 1932, premièred in New York in 1952, but since dormant.

This provides the set for the evening – an elaborate mirrored bridge on which feuding border guards strand a band of travellers. This is pointed 1930s Mittel Europa political satire, with the inevitable triumph of the little man over authority, but the music is more romantic, less compelling.

What both operas highlight is the care with which German companies create productions which might only appear once. The casting was strong, especially Silona Michel in the coquette roles in both operas, and the acting confident, every character credibly cast.

The same qualities enlivened the festival's opening night opera, Cimarosa's *Il matrimonio segreto* (The secret marriage), which is justifiably appearing frequently in the repertoire. The Emperor Leopold so enjoyed the Vienna opening performance in 1792 that it was reprised on the spot. From its Mozartian overture to its joyful conclusion, this is also an ideal work for a festival – happy and escapist, but with plenty of challenges for the singers.

The young Puerto Rican soprano Ana Maria Martinez was a great discovery, compelling in her acting, true of voice, with terrific eye appeal. Alessandro Corbelli was equally spritely as her partner. Festival director Michael Hampe directed with *élan*, if without surprises.



The Dresden Philharmonic Orchestra in the Zwinger gardens

Hampe is something of a catch for Dresden. During the communist regime the budget was immaterial: the festival was a propaganda package and if the director wanted a visit from La Scala, Covent Garden or the Bolshoi, the money was found.

Now reality has arrived with reunification and the subsidy has been cut by over a quarter, to DM6.5m (£2.8m) this year. Hampe, who came to Dresden in 1993 after running the Cologne Opera House for an unequalled 20 years, enjoys the challenge.

He uses his contacts to compensate for cash, and although the plans to bring the Concertgebouw and Birtwistle to Dresden this month had to be abandoned, the festival will still play host to Solti with the LSO, and Hans-Werner Henze.

The theme this May was the Enlightenment, of the 18th century and since, and a group of operas by Mozart's contemporaries, including *L'arbore di Diana* by Martin y Soler and *Aci e Galatea* by Naumann, would attract the opera groupies. More late 18th century operas are programmed for next year's festival, which takes the theme "The Italians in Dresden".

Hampe welcomes the greater realism in German arts funding, which has caused so much trauma across the land. He thinks that years of generous subsidy created an inertia in scores of opera houses.

He would like to see them plan more joint productions, improve their scheduling and look towards new revenue sources. He is championing joint productions at Dresden – *Il matrimonio segreto* started life at Montpellier – and with his contract running until 2000 he has time to lift the festival to the top rank in the tougher economic climate.

Dresden has two great advantages: a tradition of attracting top performers, and the city itself. Dresden, as the court city of the Electors and later the Kings of Saxony, has always been a magnet for artists. Schültz, Weber, Schumann, Wagner and Richard Strauss all worked in the city, and operas like *The Flying Dutchman* and *Salome* were premièred at the Semperoper, one of the great opera houses of Europe.

The city has suffered terribly in the last 50-odd years, physically destroyed by Allied bombers in 1945 and then dolefully restored by the communists in the 1960s. Now it is rapidly rising again.

Much of the castle and the Baroque Zwinger pleasure gardens are almost back to their former glory, and giant cranes mark where the city's traditional landmark, the Mary Church, an early 18th century Protestant cathedral to rival in size St Peter's of Rome, starts to re-form.

Dresden deserves a thriving arts festival, and on this showing it is getting one.

Dance/**Alastair Macaulay**

Experiment in mood, movement

Back in the 1960s, Trisha Brown was one of the foremost American experimentalists of dance; and 30 years on, although she is now one of the foremost choreographers of the world, experiment is still central to her nature.

The three works she is presenting in her current British tour are beguiling in the way they seem to be testing ideas before our eyes; and diverse, subtle, refreshing. She began her recent London programme by herself, dancing an extended solo, *If you couldn't see me* (new in 1994), the premise of which is that she keeps her head always turned to the rear of the stage, so that the audience never sees her face.

It proved a perfect introduction, or re-introduction, to Brown's work – although elsewhere on the tour she is presenting this solo in the middle of her triple bill – because it shows that, in the best sense of the word, she is a highly tentative artist. She sets herself and her dancers rules and tests, and her work has a highly refreshing element of game-playing.

In this solo, she is testing how to make her body's movement constantly legible and interesting when seen only, as it were, from behind. As she proceeds, she keeps changing the solo's mood – hesitant, lyrical, audacious, rippling. She moves from side to side of the stage, she retreats or advances, and she creates a slight, light adventure from space itself.

Even today, she is her own ideal dancer, for she brings to a dance – to a single phrase, even – a virtuoso wealth of dynamic gradations while always keeping the phrase moving, sometimes spinning it out at great length.

In this solo, as in most of her choreography, she makes no particular response to the music that accompanies her (a taped score by Robert Rauschenberg). Yet any musician could learn from watching her. Any visual artist, too.

She tries out straight lines, angular lines, curving lines; she pours currents of motion along her limbs, so that by the time an impulse reaches, say, her hand, her torso, which initiated that impulse, is already beginning a fresh idea; and the contrast she creates between held shape and transient momentum is peculiarly intriguing.

But music is Brown's latest venture, and the surprise of this programme is the blithe and unusual accomplishment with which, in *M.O.* (1995), a large ensemble work, she responds to, of all works, J.S. Bach's *Musical Offering*.

Her approach is not "music visualisation"; her dances form a counterpoint to the music. All truly musical choreographers work sometimes against their music – this mysterious fact is too seldom recognised – and it is fascinating to see just how far Brown sometimes takes this.

Her dances, alive with a rhythm that is not wholly drawn from Bach, sometimes continue with complete assurance into the silences between sections of the music. Or, elsewhere, she leaves the stage empty while the music continues, and surprises you by the apparently fortuitous moment at which her dancers re-enter and re-commence activities.

M.O. is, in every sense, ambiguous. For Brown's dancers do, at other times, match their rhythm to Bach's, very precisely. Much of their dancing seems entirely to be concerned with pure-dance values, but there are also passages of gesture, of human feeling, which arrive apparently out of the blue (and return to it): and in both these opposite respects Brown's choreography beautifully corresponds to different aspects of Bach's music.

One dance for two men has a strikingly baroque air, as they dance, on right and left of the stage, like mirror-images on either side of the stage's centre, with a symmetry that is perfect for Bach. But then, with sudden wit, Brown brings both men over to one side of the stage and ends their duet by having them move in the front and rear areas of the stage. They are still mirror images of each other, but the mirror itself has moved.

The movement is wholly modern, and yet it has also a composure of deportment and a liveliness of footwork that, in combination, often seem baroque.

The programme ends with the 1983 ensemble dance *Set and Reset*, one of Brown's most enduring creations and one of the finest choreographies made by anyone in the 1980s. When new – Britain has seen it several times now – it looked like a cornucopia of motion, exhilarating as it poured to and fro around the stage; and it still does.

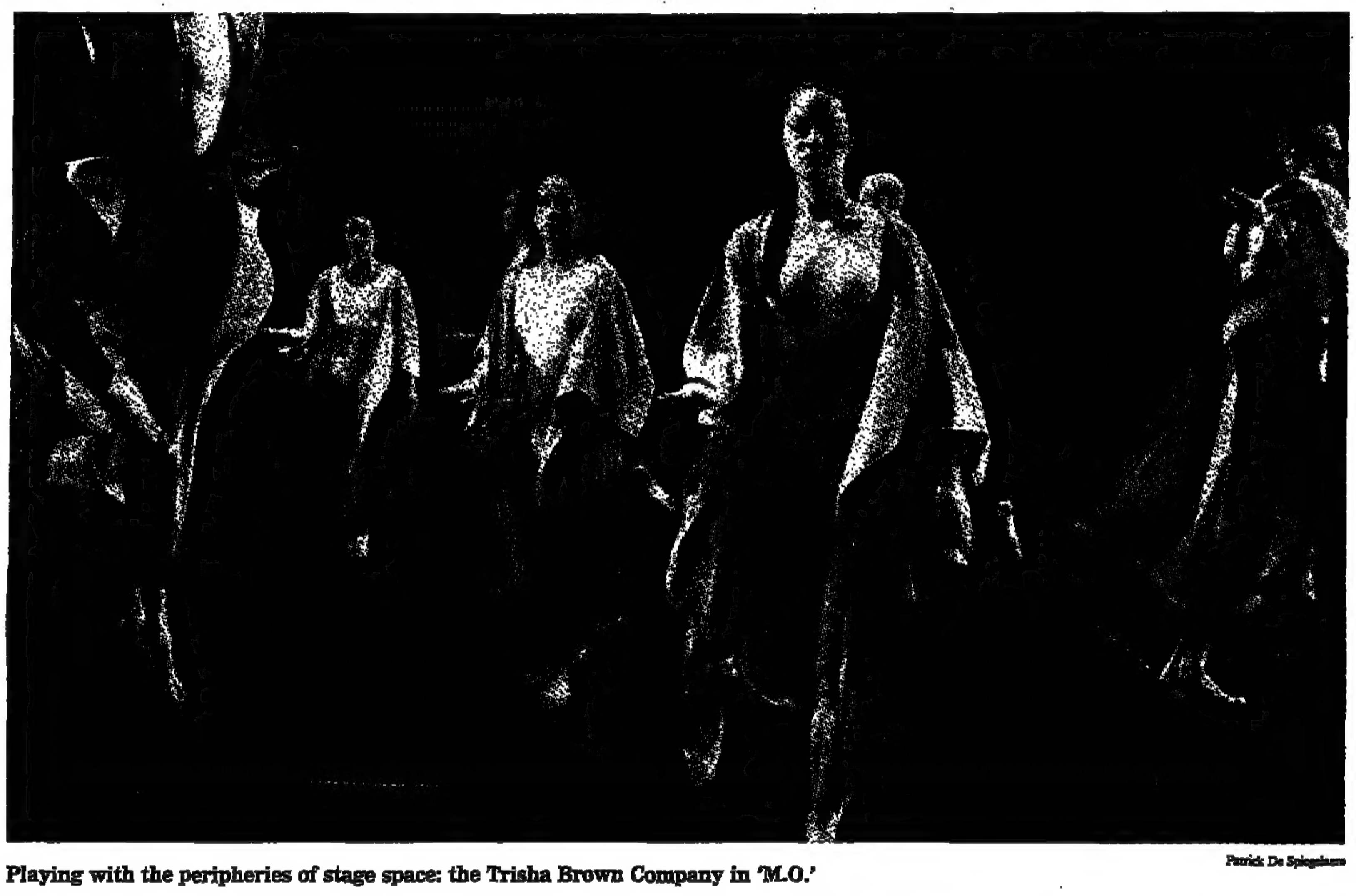
I love the way that Brown experiments with the peripheries of stage space. Dancers are forever tumbling in and out of the wings of the stage (which are translucent). And the way different currents keep passing through the dancers is exceptionally sensuous.

Laurie Anderson's music and Robert Rauschenberg's visual installation hanging overhead (with multiple unrelated short black-and-white film occurring simultaneously on several screens) form ideal accompaniments.

Here and there specific incidents grab the imagination, but more striking is the way the non-stop fluency of this work keeps washing them away and flowing on to something new.

Set and Reset is all transience, all impermanence, haunting and ravishing.

Trisha Brown's British tour continues to Blackpool on June 3-4.



Patrick De Spiegelaere

Playing with the peripheries of stage space: the Trisha Brown Company in 'M.O.'

Recital

Pianist's dramatic ascent

Nelson Goerner, as clued-up cosmopolitans will have guessed from the pianist's name, is Argentinian (combining an American forename with a German surname has been trendy there since the second world war). He is also 26 years old, and a favourite protégé of Martha Argerich, than whom nobody understands piano-playing better. Goerner's Wigmore Hall recital turned out to be remarkable.

He offered us three composers: Bartók (the early op. 14 Suite and the three Etudes), Beethoven (the earlyish "Eroica" Variations) and Chopin – the B minor Sonata and the op. 27 pair of nocturnes. They made a surprising choice for a Wigmore debut, for few pianists excel in any two of those composers, let alone all three. What we did not foresee was that Goerner would *also* play three different, distinctive pianists, each apparently steeped in his natural vein.

In the Bartók pieces, which owe manifest debts to Debussy and Skryabin while hoeing their own rows, he was no less adept at capturing folksong-accents and springing rhythms than at conjuring up virtuoso sonorities, deep and phosphorescent. Goerner's subtle command of the pedals – it is the ear that counts, not the foot – allowed the torrents of notes in the Etudes to emerge vital and hard-edged amid the halo of magical sound.

Quite another Goerner returned to perform Beethoven's E-flat variations. Blunt, resinous tone, pawky, exactly hitting off the composer's cheerful truculence in this seminal piece without extraneous graces; but also, unfortunately, too loud for the hall. The *da-da-DA!* which punctuates the middle of the main theme, repeated over and over, soon had the elder members of the Wigmore audience cowering. A local misjudgment; but it was a bracing, exuberant reading nevertheless.

After the interval, yet another pianist came on to deliver the Chopin nocturnes – the darkling C-sharp minor one, the lush D-flat – in tones as rich and suggestive as the Bartók etudes earlier, but with a poetic fluency and freedom beyond anything anticipated. Often the sound was more sheerly beautiful than I have heard in this work since a great Jorge Bolet performance several years ago at St John's Smith Square.

It was different, of course. This was a young man's performance, nothing like Bolet's ravishing slow-motion review of the sonata. But Goerner's line sang continuously with fresh imagination, the dramatic proportions of the Allegro maestoso were grandly judged, the scherzo and the relentless rondo-finale were dazzling (and technically ultra-*soigné*).

So far, Goerner cultivates no quirks or farouche "re-interpretations". He seems content to produce faithful, canonical readings, in discreet personal accents but in his marvellous panoply of keyboard colours. He will bear a lot of hearing, and might go on to great things.

David Murray

INTERNATIONAL ARTS GUIDE

AMSTERDAM

CONCERT
Concertgebouw
Tel: 31-20-5730573
● Het Residentie Orkest: with conductor Jos van Immerseel perform works by Arriaga and Beethoven; 11am; Jun 2
● Nederlands Philharmonisch Orkest: with conductor Vassili Sinaiski and pianist Eliane Rodrigues perform works by Ravel and Berlioz; 8.15pm; Jun 1, 2 (2.15pm), Jun 3

BERLIN

OPERA
Deutsche Oper Berlin
Tel: 49-30-3438401
● Aida: by Verdi. Conducted by Stefan Soltesz and performed by the Deutsche Oper Berlin. 7pm; Jun 1

BONN

OPERA
Oper der Stadt Bonn
Tel: 49-228-7281
● Il Barbiere di Siviglia: by Rossini. Conducted by Renato Palumbo and performed by the Oper Bonn. Soloists include Bruce Fowler and Carlos Alvarez; 7pm; Jun 2

DENVER

EXHIBITION
Denver Art Museum
Tel: 1-303-640-2793
● The Grosvenor Gallery: A Palace of Art in Victorian England: the exhibition explores culture, class consciousness and other issues in England in the late Victorian period; from Jun 1 to Aug 24

DROTTNINGHOLM

FESTIVAL
Drottningholms Slotsteater
Tel: 46-8-6608225
● Drottningholms Slottsteater: Of performances in the 18th century setting of the Slottsteater over 50 years, Il maestro di musica is well ahead with more than 250. This year, the Royal Swedish Opera will perform the work in combination with another by Pergolesi, La serva padrona. Other highlights include performances of Philidor's Tom Jones and Gluck's Orphée et Euridice. Guest Anne Sofie von Otter will sing on three evenings when she will be accompanied by Musica Antiqua Köln with conductor Reinhard Goebel; from Jun 1 to Sep 14

DUSSELDORF

CONCERT
Tonhalle Düsseldorf
Tel: 49-211-8992081
● London Symphony Orchestra: with conductor André Previn perform works by Williams, Dvorák and Mozart; 8pm; Jun 3

ESSEN

EXHIBITION
Museum Folkwang
Tel: 49-201-8845314
● A Changing World: British sculpture in the second half of this century – from the British Council collection by Henry Moore, Barbara Hepworth, Kenneth Armitage, Lynn Chadwick, Anthony Caro, Richard Long, Barry Flanagan, David Nash, Tony Cragg, Damian Hirst, Rachel Whiteread, Mona Hatoum, Antony Gormley and Anish Kapoor; to Jun 2

GENOA

OPERA
Teatro Carlo Felice
Tel: 39-10-589329
● Les Contes d'Hoffmann: by Offenbach. Conducted by Peter Maag and performed by the Teatro Carlo Felice; 4pm; Jun 1, 2 (3.30pm)

GLASGOW

CONCERT
Glasgow Royal Concert Hall
Tel: 44-141-3326633
● The Royal Scottish National Orchestra: with conductor Martin Merry, soprano Lesley Garrett and The City of Glasgow Chorus perform works by Mendelssohn, Canteloube and Brahms; 7.30pm; Jun 2

LEIPZIG

CONCERT
Gewandhaus zu Leipzig
Tel: 49-341-12700
● Gewandhausorchester: and the Thomanerchor with conductor Georg Christoph Biller and violinist Christian Funke perform works by Mozart, J.S. Bach and Haydn; 7pm; Jun 3

LONDON

CONCERT
St John's, Smith Square
Tel: 44-171-2221061
● Tasmin Little and Martin Roscoe: the violinist and pianist perform works by Brahms, Szymanowski and Ravel; 1pm; Jun 3
Wigmore Hall
Tel: 44-171-9352141
● Juliane Banse, Christoph Prégardien and Michael Gees: the soprano, tenor and pianist perform works by Wolf; 7.30pm; Jun 3
JAZZ & BLUES
Ronnie Scott's
Tel: 44-171-4390747
● Roy Ayers: performance by the vibraphonist, featuring the band Ubiquity; 9.30pm; Jun 1, 2
OPERA
London Coliseum
Tel: 44-171-8360111
● Fidelio: by Beethoven. Conducted by Richard Hickox and performed by the English National Opera. Soloists include Anthony Rolfe Johnson, Kathryn Harries, Peter Sidhom and Philip Sheffield; ; 7.30pm; Jun 1

MILAN

THEATRE
***Teatro Carcano** Tel: 39-2-55181377*
● Play it again, Sam: by Woody Allen (in Italian). Directed by Antonio Salines and performed by the Teatro Carcano. The cast includes Antonio Salines, Adolfo Lastretti, Francesca Blanco and Fiorenzo Fraccascia; Tue-Sat 9pm, Sun 3.30pm; to Jun 2 (not Mon)

NEW YORK

CONCERT
Alice Tully Hall Tel: 1-212-875-5050
● Bang on a Can Marathon: an eight-and-a-half hour extravaganza of the sounds on the new music scene with George Antheil, Eve Beglarian, Annie Gosfield, David Claman, George Lewis and Michael Gordon; 2.30pm; Jun 2
Avery Fisher Hall
Tel: 1-212-875-5030
● New York Philharmonic: with conductor Kurt Masur and cellist Lynn Harrell perform works by Bloch and Bruckner; 8pm; May 30; Jun 1 (11am)
EXHIBITION
Whitney Museum of American Art
Tel: 1-212-570-3600
● Collection in Context: Paul Cadmus, The Sailor Trilogy: Cadmus' paintings of carousing sailors on leave in Riverside Park sparked controversy when first exhibited in the 1930s. This exhibition reunites the sailor trilogy of "Shore Leave" (1933), "The Fleet's In!" (1934) and "Sailors and Floosies" (1938) in a celebration of the life and work of 91-year-old Cadmus; from Jun 1 to Sep 1

PARIS

CONCERT
***Salle Gaveau** Tel: 33-1 49 53 05 07*
● Marilyn Horne: accompanied by pianist Brian Zeger. The mezzo-soprano performs songs by Peri, Handel, Vivaldi, Wolf, R. Strauss, Bolcom; 8.30pm; Jun 3
Salle Pleyel Tel: 33-1 45 61 53 00
● Choeur et Orchestre des Grandes Ecoles: with conductors Sébastien Billard and Jean-Philippe Sarcos perform works by Beethoven, Mozart, Fauré and Saint-Saëns; 8.30pm; Jun 1

PRAGUE

CONCERT
Rudolfinum Tel: 42-2-530293
● BBC Symphony Orchestra: with conductor Andrew Davis and The Prague Philharmonic Choir perform works by Messiaen and Beethoven. Soloists include Joan Rodgers, Sarah Walker and Thomas Randle. Part of the Prague International Spring Festival; 8pm; Jun 2

SAN FRANCISCO

CONCERT
Louise M. Davies Symphony Hall
Tel: 1-415-864-6000
● Orchestral Crayons: with conductor Alasdair Neale and the San Francisco Symphony. Works by Berlioz, Schubert, Debussy, Tchaikovsky, Rimsky-Korsakov and Stravinsky; 2pm; Jun 1

VIENNA

CONCERT
Musikverein Tel: 43-1-5058681
● Wiener Philharmoniker: with conductor/pianist Daniel Barenboim perform works by Beethoven and Brahms; 3.30pm; Jun 1

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FT Business Morning

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European Money Wheel
Nonstop live coverage until 15.00 of European business and the financial markets

17.30
Financial Times Business Tonight

CNBC:

09.00
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

Philip Stephens

The waiting game

John Major will try to delay the general election as long as possible in the hope that something will turn up

Ask the big hitters in John Major's cabinet about the timing of the general election and they will tell you to relax. Forget all that headline hype about a beef election. The present parliament will run until April or May of next year. Therein, they confide, lies their last hope.

But then press them as to whether this administration really can cling to power for that long. Remind them of the brutal self-destruction of James Callaghan's Labour administration in its last winter of 1978. Brows furrow, fingers are crossed. Who knows?

Choosing the date of the election has long been seen as one of the most important prerogatives of prime ministerial office, as precious as a 10-metre headstart in a 100-metre sprint. Nothing so rational as fixed-term parliaments for the idiosyncratic Brits. This time, though, it is different.

In theory, Mr Major has 40-odd Thursdays to choose from between now and next spring. But he also has a parliamentary majority of just one. The spectres of death and defection hover at his shoulder. If he dithers or delays, the choice might be wrenched from his grasp. While he agonises, we must speculate.

We can cross off a few of those Thursdays. The folly of the so-called beef war has already begun to dawn on the generals in Whitehall. Michael Heseltine was wrong and then right. The first to advocate retaliation against the Europeans' refusal to eat British beef, the deputy prime minister was also the first to realise the strategy would not work. But by then it was too late. The guns were primed. Now Mr Major has been left behind by his army. Nothing that the rest of Europe can offer by way of lifting the ban on beef exports will satisfy the Tory infantry. He must choose between the humiliation of an early retreat or a prolonged, bitter stalemate.

We have been here before. The last time a prime minister tried to fight an election on the issue of who governs Britain was in 1974 when Edward Heath asked the voters to decide between his administration and striking miners. This was a real war. Lights were turned out, factories closed and the voters obliged to brush their teeth in the dark. At the end of it, Mr Heath was turned out of office. So, yes, we can be assured that Mr Major will not raise the Union flag and rush to certain defeat in a July poll.

On the face of it, the case for next spring is as compelling as that against this summer. It begins and ends with the economy. A sluggish start to the year means that Kenneth Clarke will not meet his Budget forecast of a 3 per cent rise in output during 1996. But for all the uncertainty about the stock overhang which has dogged manufacturing industry, few doubt the recovery is regaining pace.

Next month, the Whitehall statisticians will revise upwards by a quarter of a percentage point their initial estimate of growth last year. A few weeks later, the Treasury will forecast with justified confidence that the economy should indeed expand at an annual rate of 3 per cent in the second half of this year and through 1997.

The Bank of England, of course, will attempt to spoil the fun by pressing for higher interest rates. But the voters will have money in their pockets. Real, or inflation-adjusted, take-home pay is rising by about 3 per cent a year. The housing market, or most of it, is gently rebounding. Consumer confidence, at its highest now since 1992, will receive a further boost from a series of one-off payouts by building societies and electricity companies.

> For all its superficial attraction, the parallel with the decision on poll timing which faced the Callaghan government is false

For those at Westminster, Mr Heseltine among them, who consider that governments win and lose elections on the basis of what has happened to real disposable income in the previous 12 months, the longer Mr Major waits the better.

Mr Clarke also wants to play it long. He has told us not to expect an extravagant giveaway in his November Budget. The chancellor does not think that the country would take kindly to being bribed with borrowed money. But there will be some tax cuts. And budgets allow governments to define the choices for the future. In Mr Clarke's view, the voters are as concerned about what they can expect in the next parliament as they are with what has happened in the last. A budget would oblige Tony Blair's Labour party to decide between lower taxes and higher spending. Not easy. In his stumbling performance over the beef crisis, Mr Blair has shown us how quickly his party's self-confidence can buckle under pressure.

There is, though, a much simpler reason for hanging on. For all its superficial attraction, the parallel with the last Labour administration is false. When Mr Callaghan decided against an autumn election in 1978, there was nothing between the two main parties in the opinion polls. He thought that in staying on he might just establish a lead. Mr Major is 20 points behind. As one of his advisers remarked with disarming honesty this week, it is not easy for a prime minister to go early to the country if he knows he will lose. Much better to delay in the hope something will turn up.

We are left with two arguments for an autumn poll. The first says that by seizing the initiative, the prime minister would reduce the risk of losing his majority at Westminster and of facing an election at a time of Mr Blair's choosing. It is said that Baroness Thatcher is persuaded of this case. But since she has recently been heard describing the Mexico-domiciled financier Sir James Goldsmith as the best leader the Conservatives never had, her views must be treated with, let us say, a certain scepticism if not suspicion. As it happens, governments have lost confidence votes only three times this century, twice in 1924 and once, under Mr Callaghan, in 1979.

The second rationale is yet more dangerous for the Conservatives. It supposes that the beef war is still raging in the autumn and that, by then, Mr Major has dug himself in so deeply that retreat is impossible. The Europhobes are on the rampage, demanding that the prime minister rule out once and for all British participation in a single European currency. Mr Clarke's position in the cabinet looks increasing tenuous. Threats of defections from the pro-Europeans are set to become a reality. Ulster's unionists prepare to abandon the sinking ship. An election is the only escape route.

So there we have the scenarios which will be tested in 10 Downing Street during coming weeks and months. And what will Mr Major decide? That's the easy bit. He will decide to wait. If it must be the autumn, November is the most likely date. The Budget could be brought forward. More important, the prime minister will want to defer a final decision until mid-October. If by then he still has a majority, Mr Major will seek to soldier on. If not, he will fight and lose. Either way, events will shape this government's future. Plus ça change.

·LETTERS TO THE EDITOR·

Number One Southwark Bridge, London SE1 9HL

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Bad example shows UK to be shooting itself in the foot

From Sir William Nicoll.

Sir, Whether or not the UK's policy of non-co-operation in the European Union works, we will meantime be shooting at our feet.

First, while professing to uphold the law, we are breaching Article 5, second para, of the EEC Treaty. It enjoins upon the member states "to abstain from any measure which could jeopardise the attainment of the objectives of this treaty".

Since we acknowledge openly that such is our aim, we do not go to court over the beef ban in clean shoes.

Second, we are already quixotically voting against measures of which we approve – or even demand, such as anti-fraud action. The list includes some proposals on which we negotiated before we withdrew co-operation.

Resiling from a negotiated compromise is just about the worst known form of member state behaviour. We would wax indignant (and some of us would say "typical") if others had the perfidy to perpetrate it.

Third, we are busily negating the common foreign and security policy which is an intergovernmental part of the treaty we like. This is a gift to the majority of member states which, in the intergovernmental conference, are advocating majority voting to improve foreign policy decision-taking in real time. Our counter-argument has been that the unanimity requirement has not stopped the Union from taking its foreign policy decisions. We are now set to prove the contrary.

Fourth, still in the field of the common foreign and security policy, we shall prevent the Union from adopting common positions or taking joint actions where we actually want them. We may then find ourselves actively advocating and supporting exactly the same measures when they arise elsewhere, for example in Nato or in the UN. Equally, in default of the

Union action which we have stymied, we may adopt the measures unilaterally. Meanwhile, even the Union's banal foreign policy declarations are to be silenced.

Fifth, again in the common foreign and security policy, we finally have denounced our agreement to Declaration No 27 of the Treaty on European Union. It states that, to the extent possible, member states will "avoid preventing a unanimous decision where a qualified majority exists in favour of that decision". A period of silence from those who allege that we were "diddled" by the Commission's earlier non-respect of the declarations annexed to the Single European Act would be appreciated.

Sixth, we eschew the empty chair in favour of "fighting our corner". But it takes more than one to have a fight. The 14 will see no useful purpose in fighting with us – that is, negotiating towards settling differences – since we have said in advance that we will oppose the outcome whatever it may be.

(The logical course for our partners is to negotiate among themselves in accordance with the normal functioning of the Union and present their conclusion to us as cut and dried when we get round to rejoining the discussion.)

Seventh, the community is about to open its annual budgetary procedure. It divides between spenders and savers. The spenders can take our 10 votes for free to compose blocking minorities that put pressure on the other savers to give more.

I saw this happen time and again for 12 years. We are now institutionalising it.

Eighth, we will be of no use or interest to the third countries which look to us to help them in Union discussions, for example on aid and new trade opportunities. This contrasts with our stance as the closest insider friends of the new democracies in eastern Europe. Having let them down for our own reasons, we will find it hard going to restore a worthwhile relationship with them. (We will also be giving them a textbook lesson in the power of the veto which they will hold over the Union when they join it.)

Ninth, we will find that, like all deterrents, the threat to disrupt the Florence meeting of the European Council on June 21-22 by reiterating *"revenons à nos boeufs"* does not work if it has to be used. We cannot stop the others from discussing what they want to discuss and adopting conclusions acceptable to 14 of them.

We have been there before: we dissented from the conclusions of the meeting of the European Council in Rome on October 27-28 1990, without having the slightest effect on the agenda for economic and monetary union which it established.

In times like these, Jean Monnet, architect of the European Community, is worth listening to: "There can be no Community except among nations which commit themselves to it with no limit in time and no looking back."

William Nicoll,
director-general,
Council of the EC 1982-91,
Outback,
Nackington Road,
Canterbury, Kent, UK

Benefits of indulgence

From Dr Manfred Korner.

Sir, Reading your excellent editorial "A pinch of salt" (May 21), I was reminded of a recent scientific round table in Wiesbaden. There, Prof David Warburton, who is psychopharmacologist at Reading University and head of an international study group, ARISE (Associates for the Research Into the Science of Enjoyment), lectured on the merits of moderate indulgence. His hypothesis was that coffee, tea, sweets or tobacco, taken in moderation, help to cope with stress at the workplace. Thus, the immune system is strengthened so it can keep away diseases more effectively.

According to Warburton, the conventional prevention wisdom and its simplistic "do not" approach needs a revision. It should be stripped of its moralistic rigour because this creates unnecessary feelings of guilt and makes people really sick. To my mind it's worth thinking about this hypothesis and, meanwhile, joyfully indulge not only in a pinch of salt.

Manfred Korner,
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Case for Emu

From Mr Christopher Harvey.

Sir, Mr Roland Soward's letter (May 29) sums it all up nicely. My own statistics are BFr95 to the pound in November 1974 and about BFr47 today. If this is the result of the UK government's (of whatever hue) control over economic policy, then roll on Emu or the much-feared German economic policy with which the Eurosceptics frighten their children at bedtime as the modern-day equivalent of Bonaparte. I refuse to believe the results could be worse.

Christopher Harvey,
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France

Collateral loans could aid debt relief problem in Africa

From Mr Seppo Sipila.

Sir, I read with interest your supplement on African finance and banking (May 20). In this context, a proposal we put forward in Zambia a couple of years ago to those concerned with debt relief and investments hopefully deserves attention. A debt may be forgiven but it encourages economic mismanagement over and over again. Debt to equity or debt to environment have been popular alternatives. Yet one more could be debt for collateral.

Simply, the concept involves a state guarantee for a loan to a local enterprise. The government, perhaps the central bank, agrees to provide collateral to the foreign lender against repayment default by the client, say an industrial enterprise in Africa. If the client fails to repay, the government will repay instead. As obtaining any kind of collateral is often very difficult, the African client may have to pay a guarantee fee. If necessary, buying a share of a debt at discount from the bilateral lender could be part of the package.

If every fifth borrower fails to repay, five times the value of the original debt will be attracted before this "special collateral fund", composed of the original debt, gets exhausted.

The collateral fund is a proposed alternative to repayment in full by the African government of a bilateral debt. Attractive, isn't it? If it is an alternative to direct debt relief by the lending country, many investments could thus be created as repayment is secured.

Alternatively – if the new lenders perhaps still don't trust African central banks – the fund can be administered by the original lender such as a bilateral aid agency or by a principal industrial funding agency to eliminate the country risk.

This may not provide immediate debt relief but the original lender country may get some profits eventually. Africa is not only for giving and forgiving.

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Europa · Anders Aslund

How some Russians got rich

Inequalities in wealth should not be blamed on Russia's economic reformers

In the past few years, some Russians have become truly wealthy. They are bankers, oil and gas executives, traders and a few top officials. Several appear to have made more than $1bn.

But how did they make their fortunes? The Russian in the street harbours no doubt, and many western observers concur: through the voucher privatisation instigated by Anatoly Chubais, former deputy prime minister and chief privatiser. They argue privatisation allowed the managers of state enterprises to steal enterprises they managed.

However, like many widely-held beliefs, this is not true. Since Russia is now a relatively open market economy, the facts can be verified. The market capitalisation of the 200 largest Russian companies, including Gazprom and the oil companies, is about $22bn – around 5 per cent of Russian gross domestic product (GDP).

We know from surveys that enterprise managers originally obtained 8 per cent of the shares and have extended their ownership to about 20 per cent. The total market value of some 17,000 large and medium-sized privatised enterprises is estimated at 7 per cent of GDP. Thus, the original gift to the managers from Mr Chubais's privatisation was worth less than 1 per cent of GDP.

And the rise in value of the average share has not been all that much. Many enterprises – and thus their shares – have no market value, as one would expect in a market economy requiring massive restructuring.

Nor is racketeering the main cause of wealth differentials – even though it is a great nuisance and harms economic development. Total retail sales amount to a third of GDP, and a reasonable assumption is that the revenues from protection are a tenth of retail sales – that is 3 per cent of GDP.

In fact, the new wealth comes overwhelmingly from three other sources: subsidised credits, implicit export subsidies and import subsidies. These routes to enrichment opened up in 1988 with the partial deregulation of the socialist economy and took on enormous dimensions in 1991 when the Soviet economy collapsed.

The value of subsidised credits to industrial enterprises amounted to no less than 30 per cent of GDP in 1992. While Russia's inflation in 1992 amounted to 2,500 per cent a year, these credits were issued at an interest rate of 10 or 25 per cent per annum. While the aim was to boost slumping agricultural and industrial production, the main beneficiaries were primarily well-connected bankers who sat on the money. Little wonder that the bankers flourished and that while production was collapsing, many were shot in their struggle over the spoils.

The second great source of enrichment was export of commodities – oil, natural gas, metals and other raw materials. Unfortunately, the reformers failed in their attempts to liberalise all domestic prices in 1992 – at one time, the domestic oil price was only 1 per cent of the world market level.

People with good connections – executives in the producing companies, commodity traders and corrupt officials – bought oil and metals at low state-controlled domestic prices, obtained export quotas and licences, and sold the commodities on the world market for their own profit. The total value of such export profits amounted to another 30 per cent of GDP in 1992.

Hence, a violent Mafia evolved, particularly around the metal industries. Oil executives opposed price increases for oil as late as 1995 – purportedly out of social considerations. But they were more interested in their personal oil deals than in their loss-making enterprises or the value of their stocks.

The third large source of wealth was import subsidies. Because of universal fear of starvation in the winter of 1991, subsidies were retained for essential imports in 1992. Importers paid only 1 per cent of the ordinary exchange rate when buying hard currency from the government for food imports, and the government financed this subsidy with western commodity credits. But the food imports were sold at ordinary market prices in Russia, and the subsidy was siphoned off by a few traders in Moscow. Altogether, these import subsidies amounted to 15 per cent of GDP in 1992.

Let us compare the numbers. Chubais's privatisation gave managers a total of about 1 per cent of GDP, but the newly-rich Russians received enormous direct or indirect subsidies – 75 per cent of GDP in gross terms in 1992 alone.

Fortunately, subsidised credits and import subsidies were abolished in 1993 by Boris Fyodorov, the then minister of finance. The export subsidies have gradually been reduced as domestic prices have been liberalised and moved towards world levels. As might be predicted, income differentials have begun to fall.

So why does everybody blame poor Mr Chubais for the inequalities in wealth? Because people do not understand. The voucher privatisation was a transparent and visible process, while the massive creaming-off of financial flows was hidden from the public eye.

The unfortunate outcome is that many a Russian now votes in protest at the wealth differentials against the reformers who have done the most to end the conditions that led to those inequalities.

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COMMENT & ANALYSIS

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Crying foul in Albania

The Albanian elections fell far short of the standards required to qualify as free and fair. This will seriously reduce the legitimacy of any government formed as a result of them. The numerous examples of ballot-stuffing, intimidation and general chicanery noted by foreign observers on voting day were preceded by systematic harassment of opposition rallies and grossly unequal access to the mass media.

The way in which the elections were conducted makes a mockery of the Council of Europe's decision last July to admit Albania. This is clearly not a country that qualifies for recognition as a full-fledged democracy. Much of the blame lies with President Sali Berisha.

The Democratic Party, which Mr Berisha led to a 62 per cent victory in 1992, would probably – and deservedly – have won a comfortable majority had the elections been free and fair. Under his stewardship, Albania has enjoyed an unexpectedly rapid economic recovery and become a factor for stability in a turbulent region. But Mr Berisha was seeking the *two-thirds* majority needed to rewrite the revised communist-era constitution in force since 1991. It was such a victory that he sought, and was denied, at a referendum in November 1994.

About 60 per cent of voters opposed plans to increase the president's powers. It was to make sure there would be no repeat performance that Mr Berisha almost certainly sanctioned the behaviour that observers witnessed in last weekend's elections. He has won the victory he sought, but by fraudulent means.

Modest majority

Mr Berisha should now declare the elections null and void and call for new ones at the earliest opportunity. If new elections were to be held, the Democratic party would be very unlikely to gain the nearly 68 per cent of the vote claimed as a result of the rigged elections. It might even be hard-pressed to win a bare majority. But an honestly elected government with a modest majority is better than a fraudulently elected government with a large one. The latter is worse still when its aim is to provide false democratic cover for constitutional changes that would effectively turn Albania into an elective dictatorship.

For what the Albanian elections reveal is the persistence of autocratic habits in a country that only emerged five years ago from one of the most bizarre tyrannies of the 20th century. Under Enver Hoxha, Albania was cut off from the outside world, thousands were killed or imprisoned and thought control was as absolute as primitive technology could make it. The politicians now in power and in opposition were all brought up under this totalitarian rule.

An extreme case

To assume that all supporters of the Democratic party are democrats while the Socialists and supporters of other opposition parties are merely thinly-disguised communists anxious to return to the old ways would be very misleading. They all have the same background.

Albania is an extreme case. It highlights the difficulties facing all former communist states as they seek to slough off the 50-year totalitarian legacy. At the other end of the spectrum lies the Czech republic where voters go to the polls today.

The Czechs were also subject to 45 years of communist rule, of which the years after 1968 were particularly obtuse. But memories remain of inter-war Czechoslovakia, the only democracy to emerge from the dissolution of the Hapsburg empire. This gives the Czechs, and the Slovaks, a unique home-grown democratic tradition to refer back to and measure themselves by.

So far the Czechs have lived up to that tradition. The opposition parties have run a well-fought campaign which forced Mr Vaclav Klaus, the incumbent, to struggle to maintain what is likely to be a relatively modest lead. If re-elected, as seems likely, Mr Klaus will probably face a stronger opposition in the new parliament. But he knows that a more effective opposition is an asset for democracy. Unfortunately, in Mr Berisha's Albania the opposition is still seen as the enemy. New elections would give an opportunity to change this.

Turning water into money

When an electricity utility tries to get into bed with a water monopoly, one is entitled to be suspicious. What could they possibly see in each other? Money of course; and why not? If they can make more of it together than they could by staying apart, shareholders will celebrate; and customers may also raise their glasses, if the regulatory authorities force some of the extra cash to be spilled in their direction.

Yet public interest may legitimately be excited by the size of the expected dowry and its source: the profits of a monopoly in vital services. In the case of Southern Water, which has rival suitors, the benefits are far from obvious.

In the two previous mergers between electricity and water utilities, common boundaries offered the prospect of some economies in administration costs, for example from joint billing.

Even in these mergers, however, the scope for joint economies may have been exaggerated. After North West Water's takeover of Norweb last year, much of the expected reduction in costs results from economies which each utility could have made separately. The same is true of the merger between Welsh Water and Swalec. Southern Water could expect even fewer benefits. Scottish Power, which offered £1.54bn on Tuesday, is too remote to share day-to-day management. And, despite its similar name, Southern Electric, which raised the bidding by £60m the next day, overlaps the water company's territory by only about 25 per cent.

Southern Electric thinks that Southern Water is worth almost half as much again as the market thought it was worth seven days ago. So does it know something which nobody else knows? Or, more pertinently, does it foresee a level of profits which Ofwat, the industry's regulator, did not expect when it set the prices which the company may charge?

Grossly inefficient

Clearly water companies, in common with other regulated utilities, have been more profitable than many people including the regulators expected at the time of privatisation. This is largely because they had been allowed to become grossly inefficient in the state sector, so that managers had big scope to improve efficiency. This was, indeed, one of the main purposes of privatisation, so it is right that shareholders should realise some of the gains. But customers are entitled to a share as well, a point on which Ofwat insisted after previous mergers. Some US regulatory authorities have developed a rule of thumb that customers should be given half of such gains and shareholders the other half.

Double aim

The reasoning is straightforward: in a competitive market firms cut costs and form mergers with the double aim of holding down prices (to retain market share) and increasing profits. But in the water industry, unlike in the electricity industry, the scope for market disciplines is severely limited, despite the government's wish to introduce some competition.

Water companies and their bankers have been indulging in much over-excited Cityspeak recently. They must be reminded firmly that they were, are and will remain licenced monopolies.

The main consequence is that any mergers must be viewed not merely from the customers' and the shareholders' point of view, but from that of the regulator. He needs to maintain the diversity of companies, so that performance can be compared; he also needs the fullest possible financial information about them.

There is a risk that when water companies are absorbed into a conglomerate their financial performance may become more obscure, even if they are ring-fenced. There are other dangers, such as that commercially driven managers may forget their specific duties as monopoly suppliers.

These dangers may not be so great as to frustrate a merger. But the public benefits are not very large either. The balance in the case of Southern Water is narrow, but it involves important matters of principle for the industry. The best way to resolve them would be to refer the bid to the Monopolies and Mergers Commission.

Peace hangs in the balance

An Israeli election victory for Netanyahu and the right could undo the work done by Peres in negotiations with the Arabs, says **David Gardner**

As Israel's general elections drew to a close on Wednesday night in the Arab town of Nazareth, leaders of Israeli Arab parties appealed to their people on television and radio to "save the future of our region". They despatched their activists to mosques, homes and even hospital sick-beds in a desperate attempt to dig out an extra 50,000 Arab votes for Mr Shimon Peres, the prime minister and architect of Israel's peace-making with its Arab neighbours. They failed.

Official results were still to be declared last night. But with all save postal ballots already counted, Mr Benjamin Netanyahu of the rightwing nationalist Likud was defeating Mr Peres by a margin of under 25,000 votes. To cancel that out, the Labour leader would need to get about 57 per cent of the 123,000 army votes that make up most of the postal votes. That would imply support for Mr Peres among soldiers about 12 percentage points ahead of Wednesday's average among Israeli Jews. Possible, but unlikely in a contest which has turned on security.

If, as now seems more likely, "Bibi" Netanyahu has won, then the chances of a balanced and comprehensive peace between Israel and the Arabs could be pushed beyond the region's grasp. Either way, these elections show that the twin issues of peace and security have polarised Israeli society, splitting it into a peace camp and a fragmented aggregate of rightwing and religious groups, united only in their mistrust of the Arabs.

But the near-complete results reveal that a clear majority of Israeli Jews feel more comfortable with the return to a garrison state advocated by Mr Netanyahu and his allies than with the stuttering peace process – punctuated by Islamic fundamentalist terror attacks – recently overseen by Mr Peres.

The peace process led to the 1993 Oslo accords with the Palestine Liberation Organisation which have established interim Palestinian self-rule in Gaza and the main cities of the Israeli-occupied West Bank; the 1994 peace with King Hussein of Jordan; and two difficult years of negotiations on peace with Syria, for which Damascus demands the return of the Golan Heights that Israel conquered in the 1967 Arab-Israeli war. Mr Peres would have pushed hard after an election victory for a deal both with Syria and with Syrian-dominated Lebanon, the southern 12 per cent of which Israel still occupies.

This is the record defended by that half of Israel's population prepared to take the risks and make the territorial concessions it believes necessary for the Jewish state to live in peace with the Arab countries surrounding it. The process and Mr Peres have also been staunchly backed by Israel's business community, which has welcomed the opening of new markets and the arrival of big foreign investments in the country's advanced technology industries. Conventional wisdom assigns 10 percentage points of the 25 per cent real gross domestic product growth of the past four years to the peace dividend. Fears that Mr Netanyahu, a convinced free marketeer, may nevertheless lead Israel back into isolation unsettled the shekel yesterday and led to a 4.8 per cent fall in the Israeli stock market index.

Mr Netanyahu's constituency, by contrast, sees the Labour-led coalition's management of peace negotiations – particularly with its implied promise of a Palestinian state in the West Bank and Gaza – as a process which will dismantle Israel's defences, and eventually the state itself. Mr Yigal Amir, a young Jewish religious fanatic, demonstrated how visceral this reaction can be by killing prime minister Yitzhak Rabin last November, propelling Mr Peres into leadership.

The Israeli right's fortunes were damaged by its part in creating the climate of hate leading up to the Rabin assassination. But then Hamas, the Palestinian Islamist group, killed 59 Israelis in four suicide bomb attacks in February and March; Mr Netanyahu's message that the government had subcontracted Israelis' security to the PLO leader Mr Yassir Arafat and his Palestinian Authority quickly found its target. "You've created asylum cities [in the West Bank] while our front line is under bombardment," the Likud leader told Mr Peres in a TV debate on Sunday.

Likud's campaign imagery focused on the vigour of the sound-bite-perfect Mr Netanyahu, while lingering luridly on the carnage of the suicide bombs. The politics of fear appear to have triumphed. As Mr Ran Cohen, chief whip of Meretz, the leftish ally in Labour's coalition, says: "The winners of this election are Hamas on one side and Yigal Amir on the other."

Mr Netanyahu has insisted that he will pursue peace while making security his priority, which means he intends to keep most Arab land occupied by Israel. Likud and its allies say there will be no surrender of the Golan to Syria. They will go ahead with the "final status" talks with the Palestinians started this month, and respect Palestinian autonomy. But Mr Netanyahu says that a Palestinian state is out of the question; that he will not honour Israel's undertaking to discuss the future of occupied Arab east Jerusalem – claimed by Palestinians as their capital – as part of a final settlement; that Israeli settlements on Arab lands will be expanded; and that Israel will send its security forces anywhere in self-rule areas, and set the Jordan river as its permanent eastern border.

This hard line could be softened if the right allies with Shas, a dovish Sephardi religious group episodically allied with Labour, and with the Russian immigrant group headed by former dissident Mr Natan Sharansky. Many analysts suggested yesterday that the split in society would force any coalition, headed by Likud or Labour, towards the centre. Yet all centre parties are determined to keep the Golan. The only thing that unites the nationalists with the ultra-religious groups – the big winners in the Knesset (parliament) race – is the desire to expand existing settlements and create new ones.

These Israeli religious fundamentalists, moreover, could further shift a Netanyahu coalition towards the uncompromising positions defended by Likud heavyweights such as Gen Ariel Sharon. As defence minister under the late Likud prime minister Menachem Begin, Mr Sharon launched the disastrous 1982 invasion of Lebanon and siege of Beirut. When Mr Peres last month unleashed 17 days of bombardment on Lebanon after attacks by Hizbollah guerrillas, Mr Sharon urged another invasion.

Palestinian and Arab reaction to a likely Likud return has been muted, with the exception of Syria. "Anyone who claims they can achieve security and peace while holding on to the Golan and the other occupied Arab territories is an advocate of war not peace," Mr Farouq al-Sharaa, Syria's foreign minister, said on Monday. There was no shortage of voices on the right urging a strike against Syria – which licenses Hizbollah operations in Lebanon – during last month's bombardment. Indeed, the possible leap from proxy war to all-out conflict underpinned Mr Rabin's conviction that unless Israel reached terms on the Golan, it faced war with Syria within three years.

Mr Arafat and his colleagues were yesterday silent, sticking to the institutional framework of their negotiations with Israel, and banking on US pressure and, more optimistically, Arab solidarity, to moderate Mr Netanyahu. Ms Hanan Ashrawi, the respected former peace negotiator and member of the Palestinian legislature elected in January, said her people's hopes would not die if there was "a strong and solid Palestinian strategy and an Arab-co-ordinated strategy ... to re-educate Mr Netanyahu on the process of peace."

Mr Netanyahu himself believes all Arab leaders will lower their expectations when confronted with a strong leader. "When they see a weak prime minister like Mr Peres obviously they're going to ask for more," he said this week.

This could be a dangerous misreading. No Arab leader, from President Hafez al-Assad of Syria, through President Hosni Mubarak of Egypt to King Hussein of Jordan, can afford to be seen to collude in Israeli land-grabs, or the denial of legitimate Palestinian rights. Nor will Moslem leaders anywhere be able to deal comfortably with an Israel which has closed off a solution to Jerusalem, which houses the Dome of the Rock, the third holiest place in Islam.

President Bill Clinton, who invested a lot of personal effort and prestige in trying to win the election for Mr Peres, is being looked to by Arab governments as never before to bring US muscle to bear on Israel. Mr Clinton had hoped the US could broker a deal with Syria before he faces voters in November. Washington is already nervous that Syria is strengthening its alliance with Iran and putting out feelers to its arch-foe Iraq. But yesterday he framed his reaction with caution. "Our policy will be the same if Israel is prepared to take risks for peace: we are determined to do our best to reduce the risks and increase the security."

That "if" remains to be defined on both sides. But as of last night, Israel's future, and its future relationship with its neighbours, was in the hands of the young voter-soldiers. It is they who will have to do any further fighting and dying their country's political masters might require.

· OBSERVER ·

Cooley hotly denies

■ Things don't get much better for Wes Cooley, the Republican congressman from Oregon under fire for vagueness concerning both whether he got married in the mid-1980s – allegedly so his wife could continue to collect a military widow's pension from her previous marriage – and his military record.

He held a press conference in his district earlier this week to deliver the facts as he saw them. Unfortunately, they were a little contradictory. He produced a marriage certificate stating the knot was tied in California in 1993, not in Mexico in the mid-1980s as had been widely reported, but then admitted that he had lied in stating he was wed on earlier voter registration forms and a loan application.

As to his claims of valiant combat service in the Korean War, he blamed a fire in army personnel records for the lack of any verification. But he was also unable to say actually what he did in the war, how he got to Korea and with whom he served – though he did remember the nickname of one sergeant.

Mostly he blamed the "liberal media" for character assassination, adding the standard defence that his lawyers advised him he should say no more. He then said he had to rush back to Washington to vote, which was a little odd since the House was not due to end its recess for another 48 hours and jet service reaches even the Far West these days.

Not surprisingly, he did not seem to have won many converts. The top Republican in the Oregon assembly did not deny the search was afoot for a replacement.

Poles apart

■ Poland's former central bank governor Grzegorz Wojtowicz, recently exonerated by the law courts of charges of criminal negligence, seems to be clambering back.

He has just landed the chair of the supervisory board of the state-owned Bank Handlowy.

And guess whom he replaces. Why, Andrzej Olechowski, Poland's tall and debonair former finance and foreign minister, and his arch career rival who joined the board in 1991 after losing out in the race for the top job at the central bank – to Wojtowicz.

The writing was on the wall for Olechowski when Wojtowicz joined the Bank Handlowy board two months ago.

But he has chosen to go out fighting, writing to Grzegorz Kolodko, the finance minister, charging that the decision to replace him was taken "for political or personal reasons" and not from any sort of regard for the interests of Bank Handlowy or indeed the treasury.

Trybuna, a daily newspaper which acts as a mouthpiece for the former communists in the governing coalition, appears to have been ready for that particular one.

Yesterday it thundered that Olechowski, once a top adviser to former president Lech Walesa, had pressured the BH into financing the Gdansk Shipyard, which is now teetering on the brink of bankruptcy.

So whither the Wojtowicz/Olechowski joust now?

Print to be taxed

■ Philippine taxpayers are not renowned for their fidelity to declaration forms.

With fewer than 10 per cent of the country's 30m wage earners forking out last year, the government has resorted to desperate measures. It has this week published a list of the top 1,000 Philippine taxpayers, printed in all the main newspapers, and notable primarily for the numerous names excluded.

Ms Liwayway Vinzons-Chato, head of the bureau of internal revenue, claims results already. "Some of my wealthier friends have been ringing me up and saying 'why wasn't I on the list?'", she observed.

Only time will tell whether their enthusiasm to rush into print lasts long enough to guarantee them space on next year's roll call that has already been promised.

Better red

■ In a stunt worthy of Pepsi, Flammarion, the rather appropriately named Gallic publisher which has the domestic rights for Thomas Gifford's thriller *Assassini*, has resorted to multi-coloured ink in its battle to grab the headlines.

It paid Libération, the left-wing daily paper, to print its edition yesterday entirely in revolutionary red – or, as the publisher argued, a sort of imperial red designed to echo the colour of the Catholic Cardinals who feature in the twisting plot.

Not a bad fund-raising initiative for Libération, in the midst of its financial difficulties. Particularly since red ink is almost impossible to photocopy.

Game up?

■ A worthy seminar in Paris this week organised by the French Senate debated the subject of how – or whether – the country's banks can meet the challenge of European competition.

As two of the three sponsors were Deutsche Bank of Germany and Morgan Stanley of the US, the answer would seem to be right there, n'est-ce-pas?

Financial Times

50 years ago

Dutch Currency Position

The expansion of the note circulation in Holland is still being closely watched in banking circles. After a halt during the first half of May, the growth of the note issue of the Netherlands Bank was resumed last week with an increase of 40 million guilders or more than 1½ per cent. In the period since the beginning of this year alone, the note circulation has expanded by a little under 50 per cent. There can be little doubt that Holland is going through a period of inflation. The basis of the trouble is the same as in so many other countries: in short, too much money, too few goods.

Gold Royalty Abolished

Salisbury:- Taxpayers in Southern Rhodesia are to receive reliefs including income tax deductions totalling £1,642,000, Lt-Col. Sir Ernest Guest, Finance Minister, announced in the Southern Rhodesia Parliament. Income tax for companies and individuals would be reduced and Excess Profits Tax repealed. The abolition of the royalty marks a further important remission of the burden of taxation under which the Southern Rhodesian gold mines have been labouring. Last year the gold premium tax, which had been described by a commission of inquiry as bad in principle, was rescinded.

FINANCIAL TIMES
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Yeltsin pledges boost to market economy

Russian president unveils radical programme in election manifesto

By John Thornhill in Moscow

President Boris Yeltsin will today launch an election manifesto promising to defend Russia's democratic freedoms and develop its market economy, in a clear attempt to seize the political centre ground ahead of next month's poll.

In marked contrast to the nationalist flavour of his recent campaign speeches, Mr Yeltsin's programme echoes the radical liberal rhetoric of 1991 when he swept to power on a wave of democratic protest against a hardline communist coup.

In the 127-page programme, obtained yesterday by the Financial Times, Mr Yeltsin promises to complete his economic reform programme, rewrite the tax code, compensate swindled investors, strengthen the social welfare system, and introduce a modern professional army.

But he also adopts a softer tone in attempting to court voters who have suffered hardship from Russia's fitful economic reforms.

"As president I know better than most how difficult life is for you at the moment. I feel all your pain, all the country's pain. However, I am sure that this is the pain of a recovering organism," he says.

But the 65-year-old president acknowledges he has made many mistakes and was not decisive enough in tackling problems such as economic reform and Chechnya, where he now promises to pursue a peaceful path to restore constitutional order.

With typically disarming candour, he writes: "I have made mistakes, but I know better than anyone else how to correct them."

Mr Dmitry Volkov, political commentator for the liberal Sevodnya newspaper, said the Russian president was appealing to two camps: "Yeltsin has put out a programme which is designed to be acceptable to both the liberals, in its emphasis on personal freedoms and the civil state, and to the socially-challenged, in its promises of paternalistic help."

Mr Yeltsin vigorously defends his five-year record as president, claiming he pulled Russia back from the "brink of catastrophe" and put it firmly on the road towards a flourishing democratic future.

He also claims credit for entrenching the concept of a multi-party democracy, and says Russia has successfully laid the foundations of a market economy. He also claims to have preserved Russia's territorial integrity and peacefully re-integrated the country into the world community, in which it no longer had any enemies.

Measures will be introduced to stimulate investment, encourage the formation of small businesses, regulate monopoly companies more effectively, and promote competition, he says.

Mr Yeltsin, who was yesterday campaigning in Ufa, in the Urals region, is expected to launch his programme in a speech today. But it is understood the draft manifesto has been the subject of fierce debate within the presidential administration for being too liberal, and some elements of the programme may be revised before the full text is released.

How some got rich, Page 16

Thai goods lucky dip will help buy US strike jets

By Ted Bardacke in Bangkok and Bernard Gray in London

In a bizarre fruit-for-fighters swap, McDonnell Douglas of the US yesterday agreed to buy a mixed bag of Thai rubber, ceramics, furniture, frozen chicken and canned fruit in part exchange for eight top-of-the-range F/A-18 strike fighters.

Thailand has agreed to pay part of the $578m cost of the aircraft in cash, though even this will be paid in instalments through an agreement with the US government. However, in part payment, McDonnell Douglas has agreed to accept a $93m lucky dip of locally produced Thai goods.

McDonnell Douglas, which normally specialises in fighters, attack helicopters and commercial airliners, said it hoped to retail the products to Thai companies in its first large venture into the domestic goods market. It has recruited a Japanese trading house to help with the sale in international markets.

The deal to supply the F/A-18 fighters has been under discussion for over a year, and the novel swap is an indication of how arms sales are increasingly being financed by unusual methods in a fiercely competitive market.

The sale also marks the first time that jets capable of carrying long-range US air-to-air missiles have been sold to south-east Asia. The US has previously refused to sell the advanced Amraam missile into regions which did not already possess similar weapons, in an attempt to head off a regional arms race.

However, Thailand insisted on having the missile before it would buy the aircraft. Under a compromise deal, the F/A-18s will be supplied without the Amraam missile, though they will be capable of carrying the long-range weapon. If other countries in the region acquire similar weapons, the US will then supply Amraam for the Thai fighters.

Since the Thai jets are not due for delivery until 1999, and Taiwan is in the process of buying French Mirage jets armed with an equivalent to the Amraam, in practice the Thai air force may well get fighters equipped with Amraam from the date of first delivery.

The Thai government last year introduced regulations to encourage countertrade in an attempt to reduce its current account deficit, which was 8.1 per cent of gross domestic product last year. In general, for larger contracts, the government requires that raw and processed agricultural goods be exchanged for between 20 and 50 per cent of the value of a contract.

The Thai military supports the countertrade policy as a way to increase political support for a proposed massive defence build-up.

South Korean vehicle maker to boost production

Daewoo plans truck exports to crowded European market

By Haig Simonian in Kunsan, South Korea

Daewoo Motor, the vehicles subsidiary of the South Korean industrial group, expects to start exporting heavy trucks to Europe by the end of this year, increasing competition in the region's crowded truck market.

Sales of heavy trucks in Europe this year are expected to decline slightly, or at best remain broadly stable, after a period of steady growth. Competition is already tougher following the launch of new models by Scania, the Swedish truck maker.

Daewoo will ship models produced at its state-of the-art vehicles plant at Kunsan, on the west coast of Korea. The Kunsan facility, which will eventually make cars as well as commercial vehicles, is one of the world's biggest vehicle production plants, built on largely reclaimed land stretching over 7m sq metres.

Until now, Daewoo's truck output has been limited to about 4,000 vehicles a year at its Pupyong plant near Seoul. But output at Kunsan, which began last September, will rise to 20,000 vehicles a year from next month.

Daewoo's move into the European market has been planned for some time. Early last year the company bought control of Avia, the largest truckmaker in the Czech republic, and announced plans to invest heavily in new engines and vehicles.

According to a senior executive, the company intends to coordinate operations between Avia and the Kunsan plant.

Western Europe's market for trucks weighing more than 5.1 tonnes grew by 20 per cent last year to 255,000 vehicles. So far this year demand has been levelling off, with relatively small growth expected over the next one to two years.

Eastern Europe's commercial vehicles markets are fragmented and statistics unreliable. But Scania estimates the region could annually absorb 52,000 new trucks weighing more than 16 tonnes within the next decade.

The Kunsan-built trucks and tractors range from 8-23 tonnes total gross weight, and have been designed for distribution, construction and special purposes. Engines, all made by Daewoo, range from 250-370 hp.

The trucks were designed by Hawtal Whiting, the specialist UK design and engineering house.

Daewoo would not disclose which European markets had been targeted for the first sales, nor how many units were likely to be shipped.

ISS puts $100m aside for errors in US

Continued from Page 1

humble cleaner. Its strong growth and profit record made it a favourite among investors and management consultants.

About 31 per cent of group turnover was generated in North America last year.

Mr Schmidt said ISS would not pull out of the US, although it might sell off some of its US businesses.

ISS carried out a management shake-up last year and the company said its European, Scandinavian and Asian divisions had performed strongly so far this year, increasing turnover by about 11 per cent.

Mr Schmidt said the extraordinary provisions would not have a serious effect on group liquidity, but would hit the balance sheet.

The group "will have to put on the brakes" and might be forced to curb its programme of acquisitions. No profit forecast for the full year would be made until the publication of the half-year report on August 15, when a decision will also be taken on dividend policy.

THE LEX COLUMN

Dornier dilemma

If Daimler-Benz could find a way of getting shot of Dornier, its heavily loss-making regional aircraft subsidiary, that would be great news for shareholders. Now that Daimler has dealt with Fokker and AEG, Dornier is the biggest thorn in its side: last year it lost DM500m ($329m)on sales of less than DM1bn and a similar loss is in prospect for 1996. The market for turboprop aircraft is grotesquely oversupplied and America's Fairchild, the prospective buyer, is one of the few manufacturers to have consistently made money in the past few years.

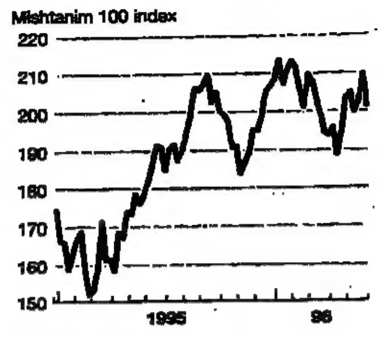
The problem so far has been that the Dornier family is opposing all attempts to sell the business. Although the family only holds 12.5 per cent of the voting rights in Dornier, it negotiated itself a veto on all significant decisions affecting Dornier when it sold to Daimler in the 1980s – giving it the power to block a sale. Daimler's aerospace arm, Dasa, now believes it has found a way of getting around this by transferring Dornier into a new holding company and selling 80 per cent of this to Fairchild. That would give Fairchild control without – in Dasa's view – requiring approval from the Dornier family. If the family still objects, Dasa is threatening to shut Dornier and sue it for the DM700m closure costs.

While Dasa's frustration is understandable it should not stoop to bullying minority shareholders, however unreasonable. After all, it was Daimler which signed the onerous contracts with the Dornier family in the first place.

Israel

FT-SE Eurotrack 200:
1727.6 (-6.1)

Israel



Source: FT Extel

An election victory for Mr Benjamin Netanyahu and his right-wing Likud party – which looks increasingly likely – is not the result investors had been hoping for. A Likud government will slow the peace process which has brought the prospect of stability and foreign investment to the region. Mr Netanyahu himself is relatively unproven, having never held a government post. And there are worries that to build a coalition with Israel's small religious parties, he will have to make concessions that could weaken the government's finances. That could lead the central bank further to increase interest rates which already stand at 16.5 per cent. This explains yesterday's 5 per cent drop in the stock market, which has been lacklustre this year following a 20 per cent jump in 1995.

But the longer-term prospects remain positive. While politics has an influence, the market is driven primarily by the outlook for interest rates and earnings. Corporate earnings growth is certainly robust at 10-12 per cent in real terms, supported by economic growth of 5 per cent. Exports are doing well and Israel has a good number of high-technology electronics and pharmaceutical companies. Even so, the stock market is trading on only 12 times this year's estimated earnings. That is partly due to fears of higher interest rates in response to a revival in inflation this spring. But Likud is likely to prove no worse than Labour at controlling inflation and is expected to revive the country's stalled privatisation programme. Investors should allow the dust to settle, but on fundamentals the market looks attractive.

Tomkins

Tomkins has become a definite victim of fashion. As that deeply unfashionable corporate beast, the committed conglomerate, its shares have now sunk below their January 1993 level, dragged down by the woes of fellow diversified industrials such as Hanson and BTR. There have also been concerns about delays in its $1.4bn acquisition of Gates Rubber, the industrial components manufacturer, which has become bogged down by the selling family's tax management problems. However, Tomkins's decline has gone too far.

The Gates deal will be done, it will enhance earnings, and it should not have the same detrimental effect on the group's rating as the unloved Ranks Hovis McDougall acquisition. After all, there should be plenty of fat to come out of Gates. And it offers substantial opportunities in following the car companies and white goods manufacturers into the developing world. Indeed, Gates already has foothold in Asia, so it may even wa Tomkins up to the opportunities in t faster emerging markets.

Even excluding Gates, Tomkins shares are trading at below 13 times forecast May 1997 earnings, a substantial discount to the market average. But earnings are growing faster than average. And Tomkins is more cash generative than Hanson and BTR, which underpins a generous dividend pay-out. There is no rationale for returning Tomkins to its pre-RHM pedestal of a massive market premium. Return on capital employed is one of Tomkins's primary yardsticks, yet the 15 per cent that it is achieving is far from exciting. But it does deserve an average market rating.

Stock Exchange

The blueprint for the new order-driven market on the London Stock Exchange represents a shift towards transparency in trading. It should help untangle the web of special privileges enjoyed by marketmakers in the current quote-driven system.

Marketmakers are, of course, reluctant to give up the privileges associated with the current system. The chief of these is exemption from stamp duty. And to encourage them to keep the new market liquid, the Treasury is willing to be persuaded to maintain the exemption. An order-driven system, under which small trades are electronically matched on screen, will only work efficiently if traders as well as investors are encouraged to take part.

The question is this: exactly how much liquidity will the new version of marketmakers, registered principal traders, have to provide in return for tax exemption? The best solution would be to do away with both tax and privileges, but the Treasury is not about to agree to this.

In its consultative document, the exchange plumps for what looks like the least onerous option for marketmakers that would still convince the Treasury to grant the exemption: RPTs would have to do a certain proportion of business through the order-driven system. But the broader market might be better served by one of the options in the Securities and Investments Board's parallel document, requiring RPTs to bid on screen whenever there were no other bids. Not only would this be a better guarantee of liquidity, it would also be an easier system to police.

Additional Lex comment on United Utilities, Page 24

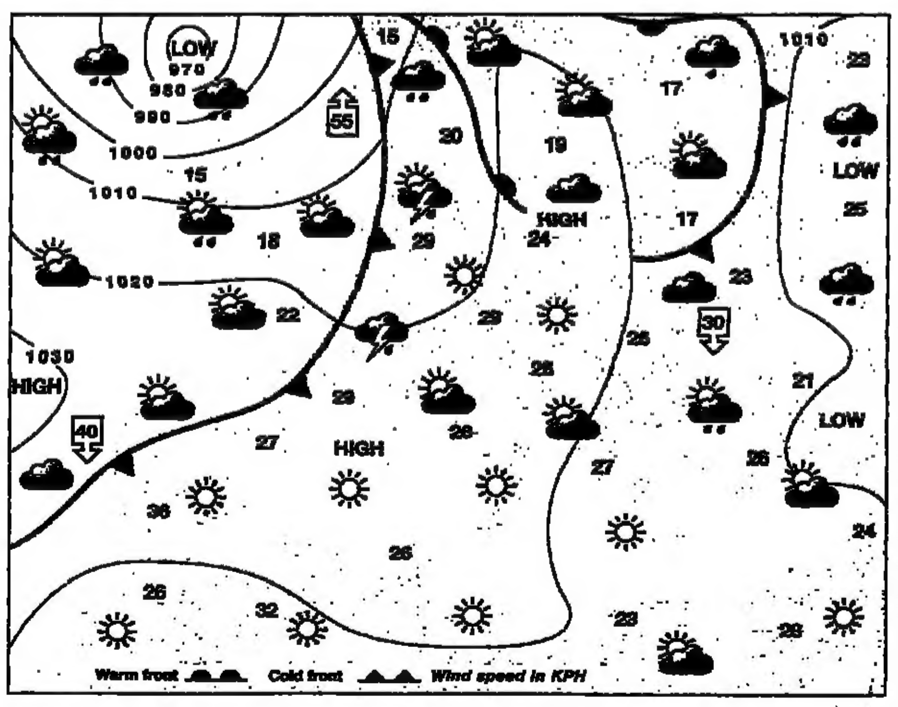
FT WEATHER GUIDE

Europe today

Low pressure over the Atlantic will bring cloudy, windy and wet conditions to Ireland and Scotland. England will have sunny spells. Drier and cooler air will flow into the Continent. The Benelux and western France will be dry with sunny periods. Thunder showers will develop in Germany and eastern France where it will be humid and warm. Dry and sunny conditions will prevail over the Iberian peninsula, although there will be showers in the north. The Baltic states and western Russia will be cool. Mainly cloudy skies with patches of light rain will prevail in Poland and the Ukraine. South-east Europe will be mainly sunny with seasonable temperatures, but showers are expected.

Five-day forecast

Settled and warm conditions will prevail in the south-east due to high pressure. Low pressure will gradually develop over northern Italy. After the weekend, mainly dry and sunny conditions will prevail in north-west Europe with a gradual warming trend.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum		Beijing	fair	32	Caracas	cloudy	31	Faro	sun	28	Madrid	fair	32	Rangoon	shower	32
		Celsius	Belfast	shower	14	Cardiff	shower	14	Frankfurt	sun	31	Majorca	sun	26	Reykjavik	cloudy	11
Abu Dhabi	sun	40	Belgrade	fair	27	Casablanca	sun	27	Geneva	thund	29	Malta	sun	25	Rio	fair	24
Accra	shower	30	Berlin	fair	30	Chicago	sun	26	Gibraltar	sun	25	Manchester	shower	15	Rome	sun	26
Algiers	sun	24	Bermuda	fair	25	Cologne	fair	28	Glasgow	shower	14	Manila	fair	33	S. Frsco	sun	23
Amsterdam	fair	21	Bogota	cloudy	20	Dakar	fair	29	Hamburg	thund	27	Melbourne	sun	18	Seoul	fair	30
Athens	sun	27	Bombay	fair	34	Dallas	cloudy	32	Helsinki	fair	19	Mexico City	cloudy	26	Singapore	cloudy	32
Atlanta	fair	28	Brussels	fair	22	Delhi	sun	43	Hong Kong	cloudy	28	Miami	fair	32	Stockholm	fair	21
B. Aires	fair	12	Budapest	sun	27	Dubai	sun	40	Honolulu	fair	31	Milan	sun	28	Strasbourg	thund	30
B.ham	cloudy	17	C.hagen	cloudy	21	Dublin	shower	15	Istanbul	fair	25	Montreal	sun	23	Sydney	fair	21
Bangkok	cloudy	36	Cairo	sun	31	Dubrovnik	sun	27	Jakarta	cloudy	30	Moscow	shower	17	Tangier	sun	28
Barcelona	sun	23	Cape Town	shower	15	Edinburgh	shower	15	Jersey	fair	13	Munich	sun	30	Tel Aviv	sun	28
									Karachi	fair	35	Nairobi	cloudy	25	Tokyo	cloudy	26
									Kuwait	sun	41	Naples	sun	26	Toronto	sun	24
									L. Angeles	sun	25	Nassau	fair	32	Vancouver	cloudy	18
									Las Palmas	fair	25	New York	sun	24	Venice	sun	26
									Lima	fair	21	Nice	sun	26	Vienna	sun	29
									Lisbon	fair	27	Nicosia	fair	28	Warsaw	fair	24
									London	fair	18	Oslo	cloudy	18	Washington	sun	25
									Lux.bourg	fair	26	Paris	fair	22	Wellington	cloudy	15
									Lyon	fair	28	Perth	rain	19	Winnipeg	rain	26
									Madeira	fair	23	Prague	sun	30	Zurich	sun	29